THE WALT DISNEY COMPANY

1989 ANNUAL REPORT

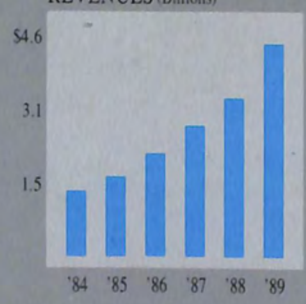
Disneyland celebrates 35 Years of Magic

FINANCIAL HIGHLIGHTS

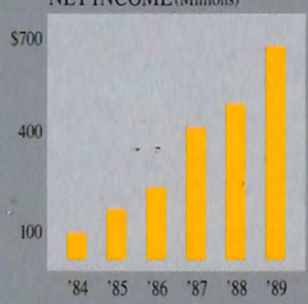
(In millions, except per share data)	1989	1988	Change
Revenues	**$4,594.3**	$3,438.2	+34%
Operating income	**1,229.0**	884.8	+39%
Net income	**703.3**	522.0	+35%
Per share	**5.10**	3.80	+34%
Return on stockholders' equity	**26%**	25%	
Cash flow*	**1,275.6**	1,075.4	+19%
Stockholders' equity	**3,044.0**	2,359.3	+29%
Per share	**22.50**	17.71	+27%

*Excludes unearned royalty advances.

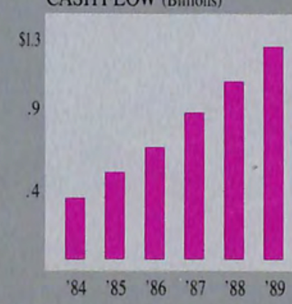
REVENUES (Billions)



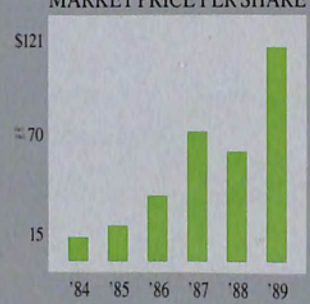
NET INCOME (Millions)



CASH FLOW (Billions)

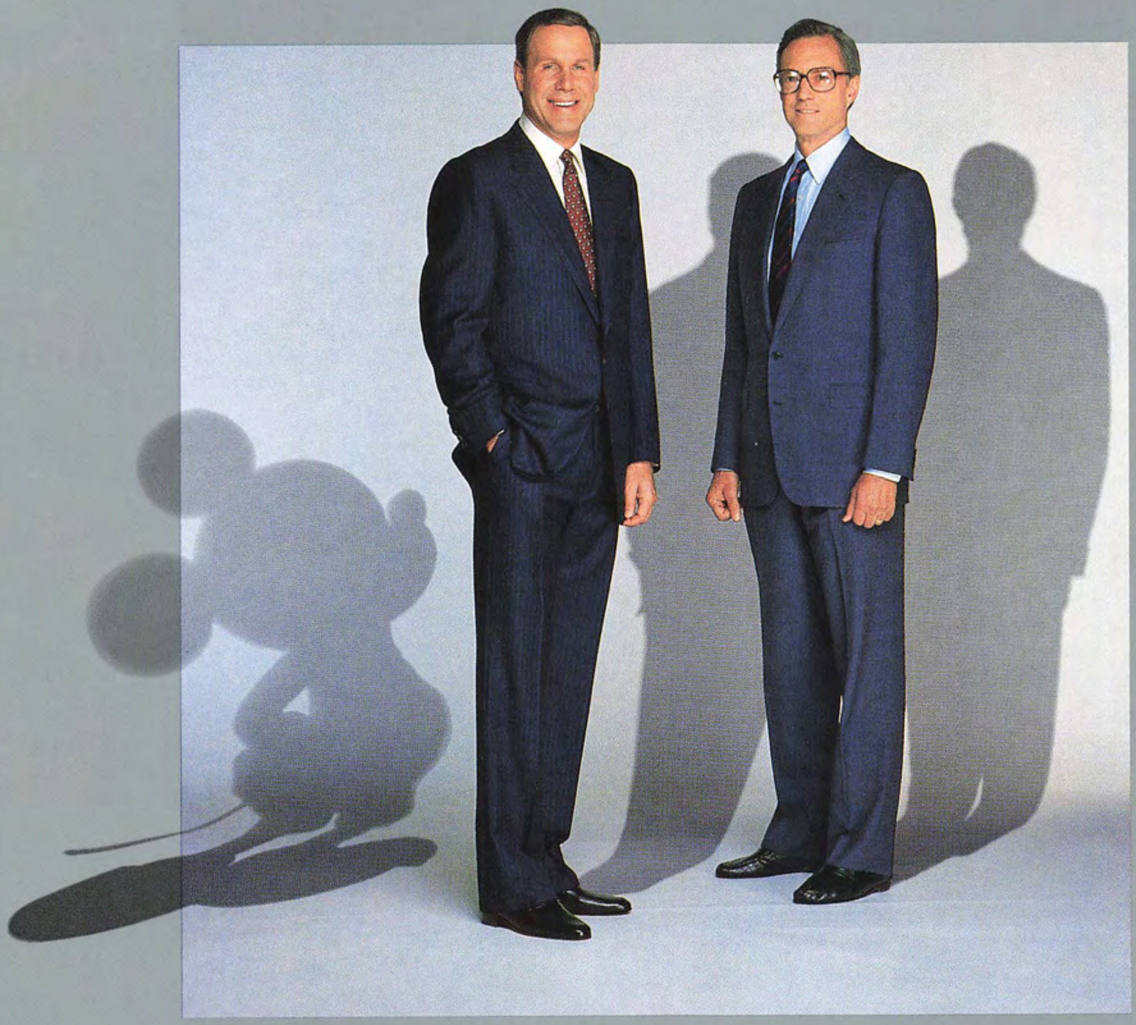


MARKET PRICE PER SHARE



Cover: *From the 1954 photo of Main Street under construction (center) to the 1989 opening ceremonies for Splash Mountain (upper right), our cover sketches a brief history of Disneyland's first 35 years. The very first souvenir guidebook is at lower right; the venerable "E" and "A" tickets are at lower left.*

But the world's first theme park has made much more history than any single page can convey. Inside this annual report, a fold-out reproduction of artist James Ridlon's 8-by-12-foot assemblage of Disneyana provides 3,000 separate memories. We hope you will take a moment to savor the magic.



Michael D. Eisner, chairman and chief executive officer (left), with Frank G. Wells, president and chief operating officer.

To our owners and fellow Disney employees:

We had another fantastic year and, like good health, everybody seems to be taking it for granted. And that really is good. We expect it of ourselves. The financial community expects it of us. Our friends expect it of us and maybe even our competitors expect it of us. Corporate exercise, corporate diet and check ups will, we hope, add years to our corporate success even as we cope with stress.

While the 1980's seemed a millennium away when I read George Orwell's "1984" in college, the 80's have now come and passed. 1989 is slipping away, and we sit poised on the brink of a new and promising decade... still catching our breath. It was the fastest year of the fast, the best of a group of great, the most rewarding.

Even though we are all pretty blase about a 34 percent one-year increase in revenues, a 35 percent increase in net income and a 29 percent increase in stockholders equity, we really should take a moment to reflect on how nice that is. My 11-year-old son, Anders, has a spelling test every Friday on which he almost always gets an A or B. My wife, Jane, and I have taken this feat for granted during most of the year until he had to spell "superfluous" and "nevertheless" on the same test. I am sure I did not know "nevertheless" was one word until I was at least 13. And writing this letter gives me the opportunity not only to congratulate my son for something I am sure I could not do, but also gives me the opportunity to pay tribute to many of our cast members who likewise have accomplished the impossible.

It is wonderful to see the joy, the fun, the excitement that many of our products bring to people throughout the world. I have traveled this past year to many of the countries in Western Europe where Mickey and his friends are stars, where Touchstone films move and entertain millions of Europeans. I have traveled to many countries in Asia where Mickey and his friends are also stars, where Tokyo Disneyland, like our features, moves and entertains millions. And of course, I have traveled about the United States where Mickey and his friends are not only superstars, but friends to millions of people through their films and through their participation in the parks. And to see people throughout the world relate to new products like "Oliver & Company" or The Disney-MGM Studios Theme Park is equally exciting. But this year has also been gratifying because I have seen some of the success of our company as it directly affects our shareholders.

I got a handwritten letter from a Mr. Talbert from Dunkirk, Md., that made me realize how important it is for us to do well and what it means to work for the shareholders.

"Dear Michael D. Eisner," he said. "My wife and I would like to thank you and the Disney people for being able to give us the opportunity to purchase our retirement home through the sale of our Disney stock. We are both 67-year-old senior citizens. I am on Social Security and my wife has a government pension, so you can see why I am thankful to you and the Disney Company."

The letter means a lot to me, and I have kept it on my desk (otherwise quite neat) for six months. Of course Mr. Talbert's P.S., "Keep up the good work," is a subtle reminder of the persistent corporate goal, "What's Next?," as in our "What's Next? I'm going to Disneyland!" television commercials.

Actually, I am going to work at Coke Corner at Disneyland for our cast Christmas party as soon as I finish this letter. That and much more is next for me, but first this is the annual shareholder letter; and therefore I should review highlights of 1989 so we can get this letter typed and off to the printer.

There were so many accomplishments in 1989, I will only list them and try not to weigh them. Like relatives, list them–do not favor them. So here we go:

☐ The smash opening of The Disney-MGM Studios Theme Park at Walt Disney World... and our subsequent decision to double the park's size because of the fantastic public acceptance. (Note that this isn't listed first by mistake; it was five years in the making, our most charming relative.)

☐ The successful opening of Splash Mountain at Disneyland.

☐ The successful flotation (a fancy word for public sale) in just a few days of the Euro Disneyland stock offering, which will partially finance Phase One construction, including the Magic Kingdom Theme Park and deluxe hotel, a retail entertainment center, five other highly distinctive resort hotels, a 595-site campground and outdoor recreational facilities, including a golf course, all to open in 1992 outside Paris.

☐ The amazing second place showing of The Walt Disney Studios movie division during the all-important 1989 summer movie season despite the most daunting competition in recent Hollywood history. Under Jeff Katzenberg and Rich Frank's leadership, films like "Honey, I Shrunk the Kids" and "Dead Poets Society" dominated the screens that "Batman" was not on. (To my high school English teacher, who in my mind was the inspiration for the Robin Williams character in "Dead Poets Society," I apologize for ending the previous sentence with a preposition and for what should have been "Honey, I *Shrank* The Kids.")

☐ The successful debuts of two other Walt Disney World attractions–Typhoon Lagoon and Pleasure Island. Dick Nunis' group never rests.

☐ The return of The Disney Studios to world supremacy in full-length animated features as signalled by the overwhelming public and critical acceptance of "Oliver & Company" and "The Little Mermaid." Maybe this should have been first on the list of accomplishments. Certainly Roy Disney would place it as our most important achievement.

☐ The continued successful internationalization of all our Disney franchises, led by massive gains by our Consumer Products and Home Video organizations.

☐ The decision to build as a second gate at Euro Disneyland a studios theme park patterned after the Florida park, with particular focus on state-of-the-art facilities for film and television production.

☐ The renewal of contracts by most of our top creative studio executives as well as Frank Wells and me. I've signed up until at least the turn of the century, which I hope defies the Hollywood aphorism that "temporary executives make permanent decisions." Frank Wells has many mountains he could climb in many areas of life, but has given up even Everest to

continue to climb Space Mountain, Splash Mountain and Big Thunder Mountain as my partner well into the future.

Frank and I signed on Jeff Katzenberg until his twins approach puberty or beyond (and they are now 6) and Jeff signed on Rich Frank, and Rich signed on David Hoberman, president of Touchstone Pictures, and Ricardo Mestres, president of Hollywood Pictures, and they signed on etc. and etc. Sounds biblical! There is nothing like continuity of management, and continuity of good management is practically unheard of in the entertainment business. Not only do you get us, but you get our families. As I write this, I know my Washington, D.C., college son, Breck, is going to movies at Tyson's Corner and visiting the Disney Store in the very same mall. I will soon hear how well maintained that store is.

Because 1989 marked my fifth anniversary at Disney, I received my five-year pin, as did Frank Wells. We received them from Roy Disney. Jeffrey got his from Roger Rabbit, who himself has just received his one-year pin from Jessica Rabbit. And maybe the most meaningful pinning ceremony this year was the one for my secretary, Lucille Martin, who just completed her 25th year, and was also Walt's secretary. Lucille really runs the company.

Because 1989 marked many of our fifth anniversaries, I thought it might be interesting to step back a bit and review with you what has taken place in your company during this five-year tenure. First, and most obvious, Disney is a much larger company today than it was in 1984, although our culture built on creativity, quality and service remains very much the same. Numbers tell part of our growth story.

From 1984 through 1989, The Walt Disney Studios averaged 46 percent annual revenue growth, with operating income increasing more than 117-fold, from $2 million in 1984 to $257 million in 1989. During the same period, revenues from our theme parks and resorts group more than doubled to $2.6 billion, and operating income was four times higher, $785.4 million versus $185.7 million.

From 1984 to 1989, our Consumer Products Division increased its revenues by almost four times, and operating income rose over the same period from $53.9 million to $187.1 million. For the entire company, revenues tripled, from $1.45 billion to $4.59 billion, and operating income increased more than five-fold from $241.8 million to $1.23 billion.

Earnings per share increased more than ten times from 1984, while return on stockholder equity rose from eight percent that year to 26 percent in 1989.

We're not only a larger company today, but a changed company as well. Meanwhile, we have either returned to – or dramatically expanded our stake in – several business areas we had previously abandoned, never tried or only nibbled at.

For example, we entered TV syndication for the first time, and our success has been much greater than anyone could have dreamed. Our new animated afternoon children's series, "Chip 'n Dale's Rescue Rangers" and "DuckTales," rank first and second in all children's programming.

We made a solid return to network television. Today Disney is represented with two of the top ten network programs in "Golden Girls" and "Empty Nest" on Saturday nights, our showcase "Magical World of Disney" on Sundays and "The New Adventures of Winnie the Pooh" and "The New Adventures of the Gummi Bears" on Saturday mornings.

We greatly expanded the number of Disney retail stores, which we once operated only at our theme parks. They now number more than 40 at major shopping malls across the country. We plan to open 100 by 1992.

Since 1984 we've added hotels at a record rate, most of them at Walt Disney World. The Grand Floridian Beach Resort, the Caribbean Beach Resort and the Walt Disney Swan account for nearly 3,800 new rooms. The Disney Yacht Club, the Disney Beach Club and the Disney Dolphin will provide another 2,700.

Disney's Port Orleans Resort (1991) and Disney's Dixie Landings Resort (1992) will bring us another 3,050 rooms. All told, there will be about 19,000 rooms on Walt Disney World property.

And when we add to these totals the Disneyland Hotel and the Queen Mary Hotel, both part of our acquisition of the Wrather Corporation in 1988, and the six new resort hotels to open at Euro Disneyland in 1992, the full scope of our commitment to the hotel business becomes clear – 30 hotels with a capacity of nearly 26,000 rooms.

Most of our growth over the past five years is the result of internal investment rather than acquisitions, but this is not to say that acquisitions haven't contributed.

Our view toward acquisitions is that they must fit well with our current businesses and talents, and they must be fairly priced. The acquisitions we have made since 1984 qualify on both counts.

Our purchase of the Wrather Corporation, for example, gives us the acreage to make a second gate at Disneyland a possibility. In addition, the deal brought us the Disneyland Hotel, now

undergoing a total facelift. It also provided us land at Long Beach, Calif., where we are studying the feasibility of additional theme park attractions and hotels.

Our acquisition of Childcraft, Inc., greatly expanded our catalog marketing, a business launched in 1985.

We made two other significant acquisitions. One was the purchase of independent television station KHJ-TV Los Angeles (now KCAL-TV). The purchase puts Disney into the television broadcasting business for the first time.

In our most recent acquisition, we expect to finalize our purchase of Henson Associates, Inc. soon, including its popular film and television library and more than 40 of his famous Muppet characters led by Kermit the Frog. We expect Jim, his unbelievable talent and existing properties to be major contributors starting this coming year and through the decade.

A business can thrive only if the owner continues to reinvest. Most of our growth in the past five years has come as a result of internal investment, and nowhere is it more obvious than in film animation and at our theme parks.

We purposely set out five years ago to reinvigorate the Disney animation function. I'm happy to report that with the release of "Oliver & Company" last year and "The Little Mermaid" for the 1989 holidays, we have now reached our objective of one new animated feature annually.

"Mermaid," in receiving one of the most enthusiastic critical receptions of any animated feature in Disney's long history, was hailed by most as a return to Disney's highest animation standards.

Our reinvestment at Disney theme parks over the past five years has been just as apparent.

In addition to The Disney-MGM Studios Theme Park, Typhoon Lagoon, Pleasure Island and the hotels already mentioned, we have made four major additions at Epcot Center and three at the Magic Kingdom.

The Epcot additions include three new pavilions: The Living Seas, presented by United Technologies; Norway, the 11th pavilion in Epcot's World Showcase, and the recently opened Wonders of Life, presented by Metropolitan Life Insurance Company. The fourth addition at Epcot is "Captain Eo," the 3-D motion picture starring Michael Jackson.

The Magic Kingdom additions include Mickey's Birthdayland, DreamFlight – presented by Delta Airlines – and "Magic Journeys," the 3-D epic film moved from Epcot. The Star Tours thrill ride opens in January at The Disney-MGM Studios Theme Park.

There have been four additions each at Disneyland and Tokyo Disneyland during our tenure. New California attractions include Star Tours, "Captain Eo," Videopolis and Splash Mountain. At Tokyo, we opened the Cinderella Castle Mystery Tour, Big Thunder Mountain, "Captain Eo" and Star Tours, which is the centerpiece of the entirely new Astrozone.

All these investments will keep the parks fresh and alive so that our guests will return again and again.

How do I feel about Disney's future? Never better. We will continue to keep an eagle eye out for acquisitions that make sense and are economical and to which our management can add value. Joe Shapiro, our general counsel, stands ready to negotiate if we can find something on which to act. (The last merger or acquisition that I was party to involved the merger of my son Eric's boys school – my wife is on the board – with a nearby girls school. This may have been the most emotional merger in the United States in 1989, and anything your company gets involved with in the future will not be as highly charged!)

The reason the company chose not to participate in the "shark frenzy" to acquire a record company was that those available seemed not only overpriced but unmanageable for us. Instead we have begun our own record company to complement our hugely successful children's music company and at an investment of a 50th of the cost. Coeducation is one thing. Overpaying for something you cannot manage is another.

Within the four walls of our company, in our own family if you will, we have made many of the hard creative and financial decisions and the heavy investments necessary to move forward. We have our corporate health and we continually take its pulse. Only a lack of continued creativity and nerve can impede us as we move into the 90's. We think we are very well prepared for the future, a future that will, as the future always does, bear witness to change – change politically around the world and change economically around the world. We will address that change as it happens while we continue on our present course. We will make movies. We will make television programs. We will build parks. We will create products that come out of each of these areas. And we will advance aggressively in the recorded music business.

I recently saw Stanley Kubrick's "2001," and the next century seems a millennium away, but this time I know how fast the years are moving. "2001," we have you in sight.

If you think these past five years have been productive, I think you are going to love the next five. I know I will. Frank Wells will. And I know Roy Disney will.

We thank you for your continued support.

December 4, 1989

Michael D. Eisner

Michael D. Eisner
Chairman and Chief Executive Officer

MAGICAL MEMORIES

It stands in the promenade near the main gate – 35 years of Disneyland history lovingly gathered in an assemblage measuring 8 by 12 feet. Artist James Ridlon combed the park, the Disney archives and Disneyana collectors' meetings before transforming memorabilia into the art that celebrates Disneyland's 35th birthday.

All told, "Magical Memories" comprises 3,000 items. There's a silver Mickey Mouse pocket watch from 1956 and a "Club 55" ring issued to one of Disneyland's original employees. Look closely and you will find photos of kings and potentates enjoying an afternoon in the park, as well as U.S. presidents from Harry Truman and Dwight Eisenhower to Ronald Reagan and George Bush.

Mr. Ridlon is an enthusiastic Disneyana collector as well as an award-winning artist. He is a professor in the College of Visual and Performing Arts at Syracuse University and a former National Football League all-pro.

Construction on Disneyland's Main Street, circa 1954, looking toward Sleeping Beauty's Castle.

MAGICAL MEMORIES

"Magical Memories" is but one representation of Disneyland's year-long celebration. Festivities start Jan. 1 on national television with a live, seven-minute Disneyland show preceding the Rose Parade in Pasadena, Calif.

That same day, the Dream Machine at Disneyland begins the biggest giveaway in the park's history. All told, 400,000 gifts will be awarded over the course of the year – a new GEO automobile every day, hundreds of Delta airline tickets, $1 million in U.S. Savings Bonds.

On Main Street, Party Gras – the biggest parade and street show in park history – will appear daily, complete with 45-foot-high Disney character balloons. "One Man's Dream," a live daily show at Videopolis, will celebrate Walt Disney and the classic characters he brought to life.

Disney network television will produce a special anniversary show for broadcast in February on NBC's "Magical World of Disney." The Disney Channel will broadcast "The Disneyland Story," an hour-long retrospective hosted by Harry Anderson. Consumer Products will license and sell collectible-quality commemorative pieces.

In the spring, Disneyland will auction off hundreds of props, costumes, art objects and other artifacts, with all profits donated to a children's charity. And in late August, the first Disneyland Pigskin Classic at Anaheim Stadium will match up two of the nation's best college football teams.

Only Disneyland could throw a party this big!

35 YEARS OF MAGIC Disneyland

Everyone makes friends at Walt Disney World.

For Disney theme parks, 1989 was a year of grand openings and record attendance, of spectacular new water-themed attractions and distinctive new hotels.

It was the year The Disney-MGM Studios Theme Park in Florida attracted capacity crowds from opening day, the year Splash Mountain added a whole new dimension at Disneyland in California, the year Star Tours began dazzling guests in Tokyo.

In Florida it was the year of Typhoon Lagoon and Pleasure Island, Metlife's Wonders of Life pavilion and Delta's DreamFlight attraction, the year the Caribbean Beach Resort was completed.

But there was more. Disney agreed in principle to acquire many of Jim Henson's Muppets characters in August, including Kermit the Frog, Miss Piggy and a whole cast of familiar comic characters. Work began immediately on a 3-D Muppets film attraction at The Disney-MGM Studios Theme Park.

In California, the Disneyland Hotel's $40-million facelift was well under way as the company explored the possibility of a second gated attraction at the park. Meanwhile, Disney continued to study the feasibility of an entertainment and hotel complex on the waterfront in nearby Long Beach.

Pluto has his name in lights at The Disney-MGM Studios Theme Park.

Walt Disney World and Disneyland each greeted its 300 millionth guest during 1989. Tokyo Disneyland, too, reached an attendance milestone, welcoming its 75 millionth guest late in the year.

WALT DISNEY WORLD

The operative words at the world's most popular destination resort were smash, splash, flash and panache.

The Disney-MGM Studios Theme Park, Walt Disney World's third separately gated attraction, surely qualified as a "smash." It opened to the public May 1 at 9 a.m. Thirty minutes later the gates were closed: The park was full.

Splash? Typhoon Lagoon, of course. The park, said *Newsweek*, is "an elaborate, epic novel of a water slide with eight different flumes, a snorkeling area and surf-making machine capable of sending out waves up to seven feet."

Not to be outdone, *Time* said the attraction is "the last splash in water theme parks. Visitors can paddle in a wave pool the size of two and a half football fields.... High above on Mount Mayday teeters a replica of a wrecked fishing boat that periodically spouts a spray of water."

For flash, look no farther than Pleasure Island. This high-energy dining and

The cameras roll on Hollywood Boulevard at The Disney-MGM Studios Theme Park. The street replicates moviedom's storied boulevard of the 1930's.

Street actors are a part of the Florida scene.

entertainment complex sets the stage nightly for dancing to live bands, roller skating, comedy, magic – even interactive theater.

Though it's just a few steps away across the bridge, Pleasure Island creates an illusion that puts the visitor in another world of activity and excitement. Street entertainers keep things lively even before guests reach the unique shops or any of the seven high-spirited nightclubs and six restaurants.

And panache? Try the teal-and-coral, 758-room Disney Swan hotel, its hallways evoking images of sandy beaches with the "boardwalk" woven right into the carpet. It will open officially Jan. 15.

Two 56,000-pound, wood-and-steel swans sit atop the 12-story structure. The hotel is operated by Westin Hotels & Resorts.

The huge crowds at The Disney-MGM Studios Theme Park on opening day were only the beginning. From spring through summer and into fall, attendance at this $500-million extravaganza outstripped the company's most optimistic estimates.

In fact, within weeks Chairman Michael D. Eisner announced plans to double the park's entertainment segment – and its capacity – by 1993.

"Take it from a movie critic who mistrusts superlatives: The Disney-MGM Studios Theme Park is a winner," wrote Joe Gelmis in *New York Newsday*.

The park combines the tone and texture of Hollywood Boulevard's Golden Age with high-tech thrills and entertainment. Astonishing stunts, earthquakes and tidal waves share top billing with a ride "through" famous movie scenes where Gene Kelly sings in the rain and Judy Garland follows the yellow brick road.

Nearby, guests get an inside look at film and television shows during actual production. Later they become performers themselves on Superstar Television, being

The plane "explodes" in the final scene at the Indiana Jones Epic Stunt Spectacular.

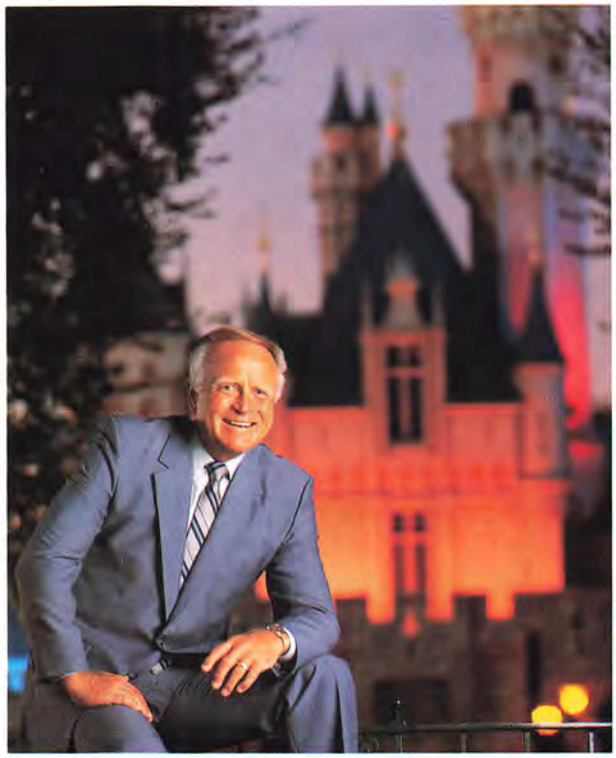
Even the gas station at the entrance of The Disney-MGM Studios Theme Park represents an authentic 1930's look.

interviewed by "Howard Cosell" or doing a fantasy guest shot on "Cheers."

Star Tours makes its Studio Theme Park debut in January. The attraction, already a mainstay in California and Japan, will be presented by M&M's® Chocolate Candies.

In November, Wonders of Life took the first Epcot Center voyagers on the remarkable Body Wars adventure.

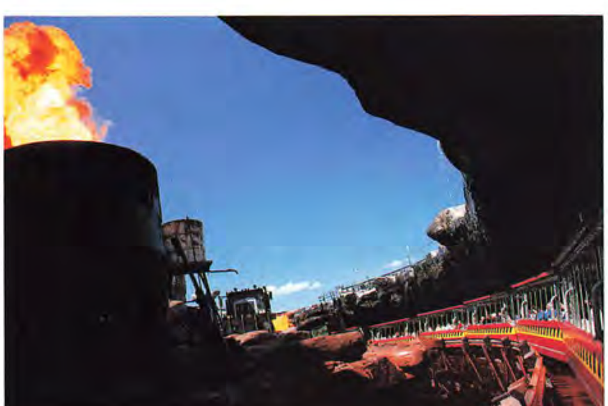
Using the film, sound and flight-simulator technology pioneered in Star Tours, the Metlife attraction is a plunging, twisting thrill ride that sweeps guests into a simulated battle between trauma troops and infection fighters in the body's immune system.



Richard A. Nunis, president of Walt Disney Attractions, oversaw Walt Disney World's largest-ever expansion in 1989.

The conflict begins with an attack on the epidermis by a giant, germ-carrying splinter. Soon the visitors' capsule is racing to find the immune-system ammunition needed to fend off the bacteriological invaders.

The gold-domed pavilion in Epcot's Future World is also home to The Making of Me, a lyrical, forthright film about the conception and birth of a young couple's first



Guests ride through the spills and chills of Catastrophe Canyon.

Munchkins populate the Yellow Brick Road on The Great Movie Ride.

Michael Eisner and Jim Henson, creator of the Muppets, announce Disney's agreement in principle to purchase Henson Associates, Inc. Work began immediately on a Muppets 3-D film for Walt Disney World.

Surf's up at Typhoon Lagoon, where man-made waves often crest at six feet.

child. In Cranium Command, guests get a light-hearted look at life through the eyes of a 12-year-old boy.

Goofy About Health stars Disney's most famous "expert" on proper health habits. In Coach's Corner, guests can have their tennis, golf or baseball swings analyzed by an expert. Later, on videotape, they can compare their strokes with a sports pro's.

Despite the activity elsewhere, the Magic Kingdom has not stood still.

DreamFlight, which opened in the fall, is a fly-through adventure presented by Delta Air Lines. It depicts the early days of flight as well as the star-bound path of aviation's future.

Hotel construction continued at a record pace. Soon after the Caribbean Beach Resort opened, the company announced plans for a two-hotel complex between Epcot Center and Walt Disney World Village.

Disney's Port Orleans Resort and Disney's Dixie Landings Resort, both with an oldtime Mississippi River theme and both moderately priced, will grow to 3,056 rooms by late 1992.

"Since we're building more places for people to play, we need more places for them to stay," said Dick Nunis, president of Walt Disney Attractions.

Three other hotels are in various stages of completion.

The Walt Disney World Dolphin, similar in concept to the Swan, will welcome its

Time magazine said Typhoon Lagoon is "the last splash" in water theme parks.

Dusk settles over Pleasure Island, the nighttime entertainment center at Walt Disney World.

first guests in July. It is operated by Sheraton Corp. Both the Swan and Dolphin were designed by the noted architect Michael Graves.

During the fall, two other hotels re-creating a relaxed, turn-of-the-century atmosphere will make their debut, boosting hotel capacity on Walt Disney World property to about 12,000 rooms.

Cartoons are drawn before your eyes at The Disney-MGM Studios Theme Park's Animation Building.

Disney's Beach Club and Yacht Club together will provide 1,214 luxurious guest rooms. The Beach Club emphasizes the blue water and white sand of a hotel by the sea; The Yacht Club exudes the clapboard charm of New England summer cottages. Robert A. M. Stern designed both hotels.

THEME PARKS AND RESORTS

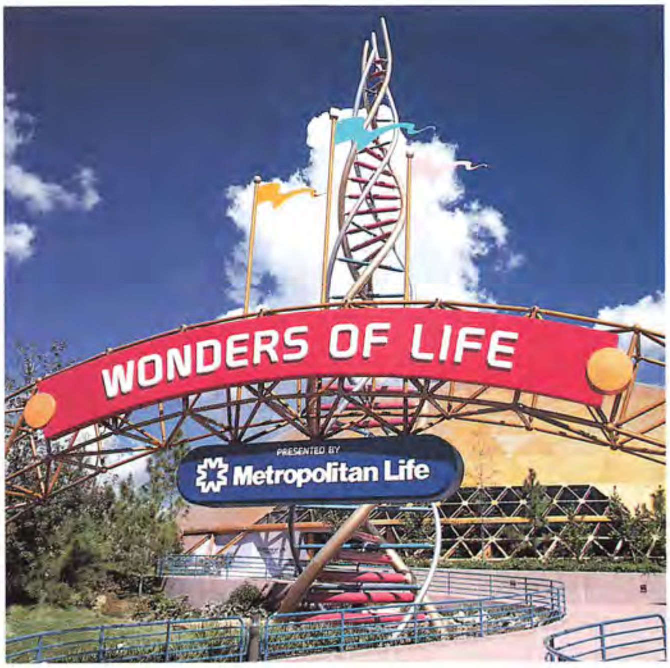
(In millions)	1989	Change	1988	Change	1987
Revenues	**$2,595.4**	**+27%**	$2,042.0	+11%	$1,834.2
Operating income	**785.4**	**+39%**	564.8	+ 3%	548.9
Operating margin	**30%**		28%		30%

Revenues and operating income in 1989 benefited significantly from increased theme park attendance and hotel occupancy. Higher per capita guest spending, primarily due to price increases, also contributed to the increased revenues and operating income in both 1989 and 1988.

Attendance at the Disney theme parks was the highest in the Company's history. The May, 1989 opening of The Disney-MGM Studios Theme Park contributed to the record attendance at Walt Disney World. Attendance at Disneyland increased due in part to the July, 1989 opening of Splash Mountain. Higher hotel room occupancy resulted from the late 1988 openings of the Grand Floridian Beach Resort Hotel and the Caribbean Beach Resort Hotel.

Operating margins for the theme parks and resort segment increased in 1989 reflecting the effect of higher attendance and increased per capita spending.

Guests crowd the dance floor at the Pleasure Island XZFR Rockin'RollerDome.



The newest pavilion at Epcot Center's Future World simulates a trip through the human body.

Cranium Command at the Wonders of Life pavilion offers a whimsical look inside the brain of a 12-year-old boy.

What would Main Street be without a parade?

In addition, the complex will offer 52,000 square feet of meeting space. With the completion of a 200,000-square-foot convention center adjoining the Swan and Dolphin, plus further expansion at the Grand Floridian Beach Resort and the Contemporary Resort, Walt Disney World will boast more than 600,000 square feet of meeting facilities.

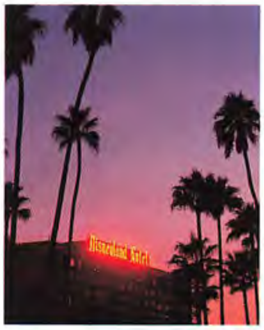
Twelve-year-old Matt Gleason stepped through the turnstile at The Disney-MGM Studios Theme Park June 21 to become Walt Disney World's 300 millionth guest. The seventh-grader from Baton Rouge, La., received a lifetime pass to all Disney theme parks for himself and his family – as well as a motorcade ride down Hollywood Boulevard alongside Mickey Mouse and actor-comedian Harvey Korman.

For all the growth and change at Walt Disney World, some things remained remarkably the same in 1989. Families continued to account for two of every three tickets purchased, and guests from the populous northeastern U.S. and eastern Canada remained the most frequent visitors.

Overseas visitors came in record numbers, accounting for nine percent of total attendance. The United Kingdom, as usual, led the parade, followed by West Germany. Prompted by the success of the London sales office, the company will open a marketing office in Frankfurt early in 1990.

In an April cover story that anticipated what lay ahead, *Newsweek* brought all the smash, splash and flash – even the panache – into sharp focus:

"...Many more visitors are on the way, lured by the promise



California sunsets are the perfect complement to a Disneyland visit.

DreamFlight, presented by Delta Airlines, "flies" guests through the romance and history of aviation.

The Disney Swan hotel will hold its grand opening ceremonies Jan. 15.

of mind-boggling new things to see and do. Indeed, Disney World, already the world's leading consumer of fireworks, is about to experience the biggest boom in its history."

Faces (and ears) in the crowd at Disneyland.

DISNEYLAND

It starts out innocently enough – a floating journey through the magical, musical swamps and bayous of Brer Rabbit, Brer Bear and Brer Fox. Minutes later, this amiable excursion becomes a white-knuckle adventure, with guests hurtling down 52 feet of rapids at speeds exceeding 40 miles an hour.

Welcome to Splash Mountain, Disneyland's newest attraction and the world's most spectacular log-flume ride. Themed to the 1946 Disney film classic, "Song of the South," it elicited strong words of praise when it opened in July.

"Dizzying Even for Disney," a *Los Angeles Times* headline proclaimed. The story continued:

"The Disney surprises are there. Patrons who watch closely, for example, can see Brer Rabbit leaving home on a handcart, or watch the hapless rabbit as he is tied up and about to be roasted in a caldron....

Art deco dessert bar at The Disney-MGM Studios Theme Park.

"And like any Disney legend, the tale ends happily–but not before customers get hurled down the ride's final drop into the brier patch."

The attraction is so appealing, in fact, that its presence translated immediately into solid attendance gains as Disneyland enjoyed another banner year.

That success was underscored at precisely 11:23 a.m.

Construction continues on the 1,509-room Disney Dolphin hotel at Walt Disney World. It opens in July.

Splash Mountain at Disneyland is alive with Audio-Animatronics characters from Disney's classic film, "Song of the South."

Wood-sculpted bear at Disneyland's Critter Country tries his fisherman's luck.

Sept. 1 when 28-year-old Claudine Masson of Chateauroux, France, became the 300 millionth guest through the turnstiles. She received a lifetime pass, 500 Disney Dollars for a shopping spree at the park, a week's accommodations at the Disneyland Hotel, airline tickets and a weekend cruise.

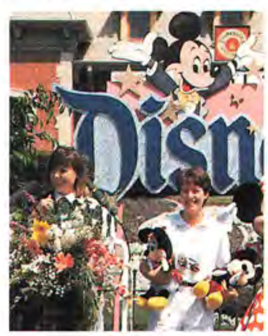
There were countless other highlights as Disneyland prepared for next year's 35th anniversary celebration.

An all-new summertime parade brought the magic and excitement of Disney cartoon characters right down Main Street. In addition to Mickey, Donald and friends, Roger Rabbit, Chip 'n Dale and the Gummi Bears showed up for the twice-daily event.

The summer offered other special entertainment as well. At Plaza Gardens, "Fantasy Follies" starred the well-known Disney characters in a merry mix of song and dance. "Show Biz Is" dominated the daytime stage at Videopolis.

And at night, the Main Street Electrical Parade remained as popular as ever, with Tinkerbell flying from the top of Matterhorn Mountain to introduce the Fantasy in the Sky fireworks show.

The biggest names of the big band era played their timeless hits from June into September. Orchestras led by Tex Beneke, Ray McKinley, Ray Anthony, Les Brown and Lionel Hampton held forth, as did bands originally fronted by the late Benny Goodman, Harry James, Count Basie and Tommy Dorsey.



Disneyland's 300 millionth guest, Claudine Masson, received a lifetime pass, gifts, airline tickets and a cruise.

Drivers in the transcontinental Great American Race of vintage vehicles, which traditionally has begun at Disneyland, ended there this year after starting their trek in Virginia. The team of Dick Burdick and Wayne Bell, driving an open-cockpit 1924 Bentley, won the $50,000 first prize, outlasting a field that included a 1905 De Dietrich and a 1902 Mors Grand Prix.

As its 35th anniversary approaches, the theme park that

The Old Mill helps set the scene at the new Splash Mountain flume ride attraction at Disneyland.

Disney is refurbishing all 365 guest rooms aboard the Queen Mary, which it operates as a hotel and attraction under a management contract.

was Walt Disney's enduring dream remains "the happiest place on Earth." As one Canadian reporter wrote, "The celebration of goodness and beauty eternally triumphant reigns supreme in Disneyland, enchanting not only children but people of every age who succumb to its simple – but very potent – spell."

Topiary expert shapes a familiar figure at Tokyo Disneyland.

TOKYO DISNEYLAND

Tokyo Disneyland continued to weave its gentle magic in 1989, drawing record crowds and introducing a spectacular new attraction.

In a year-long fifth anniversary celebration that ended April 14, the park surpassed by more than a million its best previous annual attendance record. By fall, it had welcomed its 75 millionth guest.

Star Tours made its Japanese debut July 12. Based on flight-simulator technology, this rollicking junket through outer space immediately became the park's most popular attraction. Guests leaving Star Tours cross a bridge that leads to Tomorrowland Astrozone, a shopping area that continues the intergalactic theme.

Tokyo Disneyland's success coincides with the Japanese public's growing interest in relaxation and pleasure. People have become willing to spend several hours traveling to reach the park, as proved by increased attendance from the country's most distant regions.

Schoolchildren continued their love affair with the park, accounting for more than 10 percent of the year's guests. Perhaps most surprising, the number of repeat visitors also increased, passing 75 percent.

Guests arriving at Tokyo Disneyland by train debark at this picturesque station just a short walk from the park's gate.

Tokyo Disneyland, owned and operated by the Oriental Land Co., Ltd., will complete a second five-year plan by 1993. The $350-million effort will expand the park and its peripheral area and improve access to what has already become one of the world's most popular attractions.

The storied Spruce Goose is part of the Queen Mary entertainment complex.

Audio-Animatronics figures entertain at the Pan Galactic Pizza Port in Tokyo Disneyland's Tomorrowland.

Entrance to the new Star Tours at Tokyo Disneyland.

On location in Louisiana for the shooting of Touchstone Pictures' "Blaze."

In 1989, The Walt Disney Studios continued to be a leader in the filmed entertainment industry.

In many ways, the success experienced in 1989 was an extension of the steady growth over the last four years under the management team headed by Chairman Jeffrey Katzenberg and President Richard Frank. From 1984 to 1988, The Walt Disney Studios went from last place, with only a four percent share of domestic box office, to first place, with more than 19 percent of 1988's total.

In 1989, the winning streak continued. Every division scored striking successes, as revenues grew to almost $1.6 billion and operating income topped $256 million.

The film division maintained a healthy box office share during the biggest year in Hollywood history with such hits as "Honey, I Shrunk the Kids," "Dead Poets Society" and "Turner & Hooch."

It was a banner year for animation, starting with the reissue of "The Rescuers" in the spring and "Peter Pan" in the summer. Then, in time for the holiday season, came the triumphant release of "The Little Mermaid," the second all-new Disney animated feature film in as many years and the first to be based on a classic fairy tale since the release of "Sleeping Beauty" in 1959.

Ariel the Mermaid and her friend, Flounder, in "The Little Mermaid."

On network television, "Golden Girls" and "Empty Nest" consistently ranked among the top ten programs in the ratings. In syndication, "DuckTales," the most-watched show in afternoon children's TV since its premiere in 1987, was joined by "Chip 'n Dale's Rescue Rangers," which went on to become the new number one kids' show – with "DuckTales" close behind.

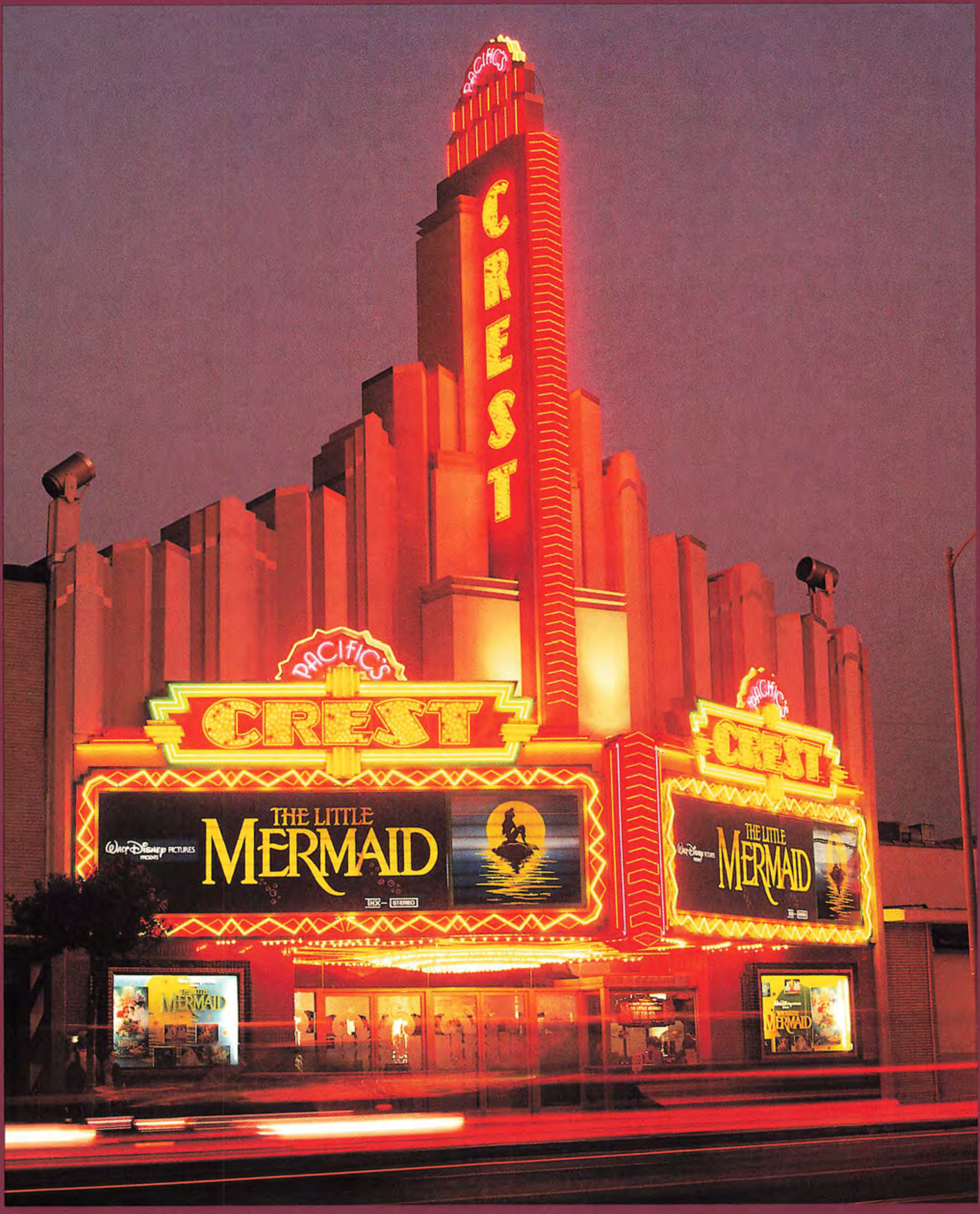
In pay television, The Disney Channel maintained its steady growth, nearing five million subscribers by year end. New programming for every age group, from the new "Mickey Mouse Club" to the acclaimed mini-series "Great Expectations," helped the channel earn its reputation as "America's family network."

Buena Vista Home Video released "Bambi" and "Who Framed Roger Rabbit" in the fall. Their combined sales of over 18 million units immediately catapulted them into second and third place among all-time best-selling video releases, helping Buena Vista Home Video remain the industry leader for the third consecutive year.

MOTION PICTURES

It was the biggest year in motion picture history. Box office revenues approached $5 billion for the first time, propelled by major sequels and costly action films.

Into this environment, The Walt Disney Studios offered a range of more modestly



"The Little Mermaid," which The New York Times *called "the best animated Disney film in at least 30 years," set an industry record for an animated film with a per-screen average of $6,068 during its opening weekend.*

Richard Gere and Julia Roberts star in Touchstone Pictures' "Off the Boulevard," due out in the spring.

budgeted films that included a thoughtful drama ("Dead Poets Society"), a somewhat nutty family film ("Honey, I Shrunk the Kids") and a lighthearted comedy ("Turner & Hooch").

Disney's innovative programming paid off. The company ended the summer ranked second in box office gross with theatrical revenues that were actually $28 million greater than those of the summer of 1988, when Disney was the box office champ.

"Beaches," which ultimately grossed $57 million, and "Oliver & Company," which became the most successful initial release for an animated film in history ($53 million), got the year off to a solid start. "Three Fugitives" (January) grossed $40 million, followed in the spring by the successful reissue of the 1977 animated film "The Rescuers."

Then came the summer.

Not only did "Dead Poets Society" fly in the face of well-publicized competition, it also disproved the long-held Hollywood conviction that moviegoers wouldn't watch a serious film during the summer. "Dead Poets Society" was most assuredly a serious film – and a stunning success. Directed by Peter Weir and starring Robin Williams, the coming-of-age drama grossed more than $95 million.

"Honey, I Shrunk the Kids" was released in direct competition with some of the biggest films of the summer. This inventive comedy went on to become one of the top five movies of the year, grossing $130 million. "Honey" got an added boost from the accompanying release of the first Roger Rabbit short, "Tummy Trouble." Later in the summer, the timeless classic "Peter Pan" flew into theaters in reissue to gross $29 million.

In July, Tom Hanks and his co-star Beasley the Dog starred in the comedy "Turner & Hooch," which grossed some $70 million. Along with "Dead Poets Society" and "Honey, I Shrunk the Kids," it gave Disney three of the summer's top ten films.

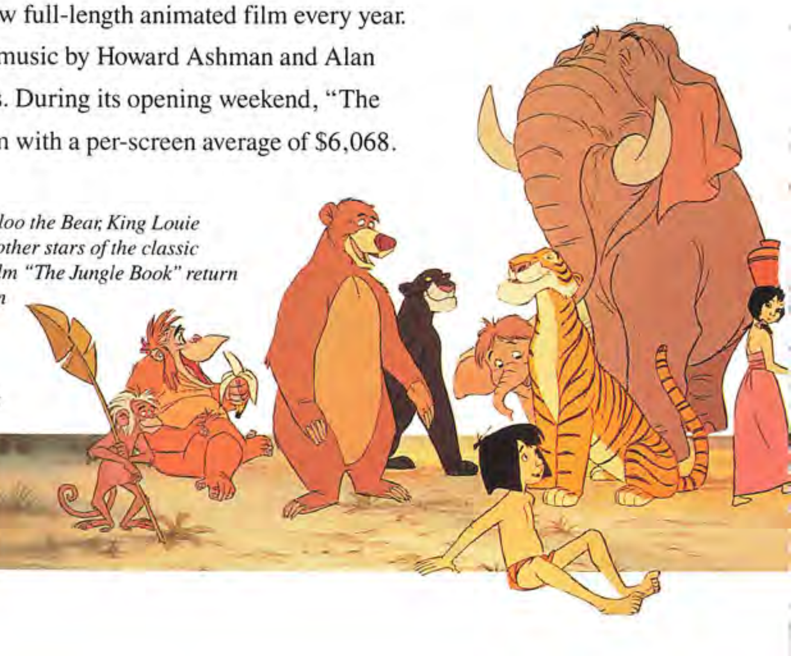
As calendar 1989 ended, the studios released "The Little Mermaid" and "Blaze."

"Mermaid" was hailed by critics as Disney's finest animated film in 30 years. It also fulfilled the studios' commitment to turn out a new full-length animated film every year.

Buoyed by the sparkling original songs and music by Howard Ashman and Alan Menken, the film captivated audiences of all ages. During its opening weekend, "The Little Mermaid" set a record for an animated film with a per-screen average of $6,068.

This logo featuring Warren Beatty as famed crime-stopper Dick Tracy will be featured on a wide range of merchandise in advance of the film's release in June.

Mowgli, Baloo the Bear, King Louie and all the other stars of the classic animated film "The Jungle Book" return to the screen during the film's reissue this summer.



Richard Corliss of *Time* marveled: "The whole movie is canny magic. For 82 minutes, 'The Little Mermaid' reclaims the movie house as a dream palace and the big screen as a window into enchantment. Live-action filmmakers, see this and try to top it. Go on and try."

In 1989, Walt Disney Studios Chairman Jeffrey Katzenberg (right) and President Richard H. Frank led their division to its most successful year ever.

Just before Christmas, Touchstone released "Blaze," starring Paul Newman as legendary Louisiana Governor Earl Long, who ultimately had to choose between his political career and his relationship with famed New Orleans stripper Blaze Starr, played by newcomer Lolita Davidovich.

Overseas, Disney finished the year second in box office with receipts of more than $445 million – its third record-setting year in a row. Such 1988 domestic hits as "Who Framed Roger Rabbit" and "Cocktail" proved extremely popular around the world in 1989. In fact, "Roger" actually grossed more overseas than it did in domestic release.

In 1989, Disney films were on view not only in movie theaters but in Disney theme parks. At Walt Disney World, films featuring Bette Midler, Warren Beatty, Robin Williams and Walter Cronkite illustrated the world of moviemaking at the new Disney-MGM Studios Theme Park.

At Epcot Center, the studios produced animated and live-action films that formed an integral part of the new Wonders of Life pavilion. Leonard Nimoy directed the footage for the Body Wars ride through the human body. Films for the Cranium Command and Making of Me attractions featured Charles Grodin, Bobcat Goldthwait and Martin Short.

In 1990, Disney should further strengthen its box-office position through the creation

In "Blaze," Paul Newman as Governor Earl Long and Lolita Davidovich as stripper Blaze Starr portray the star-crossed lovers whose stormy affair rocked Louisiana politics.

Bette Midler plays the title role and Trini Alvarado is her daughter, Jenny, in "Stella."

of an entirely new studio – Hollywood Pictures. It will be a "twin" to Touchstone, producing similar high-quality films. When it reaches its goal of 10-12 movies annually, it will boost the studios' total output to some 30 films a year.

Like Touchstone, Hollywood will produce its films with an eye toward cost-effectiveness, a tradition that has kept Disney production costs 30 percent below the industry average.

Hollywood Pictures plans to release four to five films in 1990. The first, "Pros and Cons," is a comedy of mistaken identity when a roguish con man finds the date book of an uptight, compulsive executive and begins to assume his identity. It stars Charles Grodin and Jim Belushi.

During the summer, Hollywood will release "Arachniphobia," a new experience in terror produced by Steven Spielberg. The plot centers on a new strain of killer spider that comes to a town in New England. To save themselves, the locals must combat the menacing forces of Mother Nature in the classic tradition of "The Birds" and "Jaws."

Touchstone will release a strong slate of films in 1990, beginning with "Stella," a remake of the Barbara Stanwyck classic, "Stella Dallas." Bette Midler will star as the unwed mother who must make the ultimate sacrifice in choosing what is best for her daughter.

Among the spring releases will be "Off the Boulevard," starring Richard Gere as a wealthy corporate raider from New York who pays $3,000 to a woman of the streets of Hollywood (Julia Roberts) to spend the week with him. In this contemporary tale of "Pygmalion," these seemingly mismatched people come to find their lives forever changed.

Also slated for spring release: "Betsy's Wedding," starring Alan Alda as the anxiety-ridden father of the bride; "Ernest Goes to Jail," in which Ernest is charged with the crimes of his evil twin, and "Where the Heart Is," a quirky coming of age comedy directed by John Boorman ("Excalibur," "Hope and Glory").

The success of "Honey, I Shrunk the Kids" illustrated the huge potential audience for traditional Disney films. In 1990, a total of eight films will be released under the Disney label, the most in the company's history.

In the summer comes "Dick Tracy," starring, written and directed by Academy Award winner Warren Beatty. It co-stars Madonna and features supporting roles by some of the biggest names in Hollywood. The film's potential is tremendous as theatrical entertainment and as a catalyst for merchandising and spin-off benefits for the entire company.

Another Disney release, tentatively titled "Martians," is the story of a 9-year-old girl who

Some of the interstellar cast of the upcoming Disney release, "Martians."

Walt Disney Company Vice Chairman Roy Disney has been the driving influence behind the revitalization of the studios' animation division.

befriends a band of aliens stranded on Earth after a botched invasion attempt.

Disney animation will reissue "The Jungle Book" in the summer. In the fall, "Fantasia" will be released with a magnificently restored print and soundtrack to mark its 50th anniversary.

For Christmas, Disney will release its third new animated film in as many years, "The Rescuers Down Under." This sequel to "The Rescuers" follows the exploits of the search and rescue mouse team of Bianca and Bernard as they travel to Australia. It will be paired with a new animated featurette, "The Prince and the Pauper," featuring Mickey Mouse in the challenging dual role.

In addition to Hollywood Pictures, the studios will unveil another new label in 1990 – Funny Flickers. Its first release will be "The DuckTales Movie." Funny Flickers will release up to one new film each year, with many of the films being based on popular Disney animated television characters. The films will be of extremely high quality but will provide a different kind of theatrical entertainment than the classic Disney animated films, complementing but not competing with them.

A number of sequel projects show great potential. The first two, "Three Men and a Little Lady" (sequel to "Three Men and a Baby") and "Good Morning, Chicago" (sequel to "Good Morning, Vietnam"), may be ready for Christmas. Then there's the planned sequel for "Honey, I Shrunk the Kids" after which comes the further adventures of Roger Rabbit and his toon and human pals. Also under development is a sequel to "Mary Poppins."

Just as "Oliver & Company" and "The Little Mermaid" have reestablished The Walt Disney Studios as the leader in theatrical animation, "DuckTales" has set new standards for quality animated entertainment in children's television.

NETWORK TELEVISION

Disney's presence on network television continued to be anchored by its lineup of

"Empty Nest," now in its second year, is still a consistent top-10 show in the weekly ratings.

Carol Burnett brings her comedic genius back to weekly television in her new show, "Carol & Company."

"The Golden Girls" and "Empty Nest" on Saturday nights, "The Magical World of Disney" on Sunday nights and "The New Adventures of Winnie the Pooh" and "The Adventures of the Gummi Bears" on Saturday mornings.

In an effort to expand network exposure, the studios have contracted with some of television's leading writing, producing and directing talent.

The results will be seen early in 1990 with the premiere of "Carol & Company," starring Carol Burnett. The show, with Carol in a new role each week, is written and executive produced by Matt Williams, creator of "Roseanne" and "A Different World" and a writer/producer on "The Cosby Show."

Among other shows in development:

"Anna," written by Mort Nathan, Barry Fanaro, Terry Grossman and Kathy Speer, the team that wrote and produced "The Golden Girls" during its first four years; "Mount Sinai," written by Danny Arnold, creator of "Barney Miller"; "Plymouth," created, written and directed by Lee Zlotoff, a series revolving around the first settlement on the moon.

Meanwhile, "The Magical World of Disney" continues to offer top-quality family entertainment with such films and mini-series as "The Mary Thomas Story," "Parent Trap Vacation" and "Polly," an updated musical version of "Pollyanna," starring Keshia Knight Pulliam and Phylicia Rashad of "The Cosby Show."

The multi-talented cast of the new "Mickey Mouse Club" has attracted fans of all ages on The Disney Channel.

SYNDICATION

Buena Vista Television continued its strong presence in syndication.

"Siskel & Ebert" has become a mainstay of American television. This year it celebrated its 500th installment of contentious and insightful movie reviews.

"Live with Regis and Kathie Lee" remains one of the most talked-about talk shows. And "Win, Lose or Draw" has not only been a consistently strong game show but has spawned a number of successful spin-offs, including versions on Canadian, Italian, British and French television and "Teen Win, Lose or Draw" on The Disney Channel.

"Talespin" will debut in afternoon syndication in fall 1990, joining "DuckTales," "Chip 'n Dale" and "Gummi Bears" to form a two-hour block of children's entertainment called "The Disney Afternoon."

"The Golden Girls," now in its fifth season, remains as popular as ever and will be available for syndicated release in the fall.

As "Win, Lose or Draw" winds down its run, a new show, "The Challengers," is being planned to debut in the fall. It will be hosted by Dick Clark and will be the first syndicated television game show to test contestants on current events as well as general knowledge.

Phylicia Rashad and Keshia Knight Pulliam star in the remake of "Pollyanna" for "The Magical World of Disney."

The new year will also see the syndicated release of "The Golden Girls." Thanks to its ongoing popularity on network TV, it is expected to bring in substantial revenues in syndication, underscoring the long-term profit potential of a successful network program.

Overseas, Buena Vista International has at least three hours of Disney-labeled programming on the air in Scandinavia, England, France and Italy. Many of these programs are "Disney Clubs," which are Disney-themed shows produced in the countries in which they air. Currently, Disney Club shows in England and the Netherlands are number one in their time periods. These and other Disney programs in Europe are helping provide valuable synergy in advance of the opening of Euro Disneyland in 1992.

Animation remains the biggest success story in syndication. In 1989, "DuckTales" was joined by "Chip 'n Dale's Rescue Rangers." The shows' blend of exciting scripts, appealing characters and lively animation has helped keep them the unchallenged leaders in children's afternoon television. For 110 straight weeks, "DuckTales" or "Chip 'n Dale" ranked number one in children's syndication.

Next fall, they will be joined by "The Adventures of the Gummi Bears" and the

FILMED ENTERTAINMENT

(In millions)	1989	Change	1988	Change	1987
Revenues	**$1,587.6**	**+38%**	$1,149.2	+31%	$875.6
Operating income	**256.5**	**+38%**	186.3	+43%	130.6
Operating margin	**16%**		16%		15%

Revenues and operating income in 1989 reflect significant growth in theatrical and television activities led by domestic and international home video sales. Home video releases included Bambi, Cinderella, Three Men and a Baby, Cocktail *and* Beaches.

Theatrical results reflect the success of Honey, I Shrunk the Kids, Dead Poets Society *and* Turner & Hooch *domestically and* Who Framed Roger Rabbit *and* Cocktail *overseas. Other key contributors to the 1989 results were higher pay and syndication television sales and continuing subscriber growth at The Disney Channel. Operating results are included for Los Angeles television station KCAL-TV since its acquisition in December, 1988.*

Overall revenues and operating income were higher in 1988 when compared with 1987 due to the exceptional box office success of Three Men and a Baby, Who Framed Roger Rabbit *and* Good Morning, Vietnam, *and outstanding domestic and international home video sales.*

In fall of 1989, "Chip 'n Dale's Rescue Rangers" sleuthed their way to number one in the ratings in children's syndicated television.

Jean Simmons and Martin Harvey were featured in the acclaimed mini-series "Great Expectations" for The Disney Channel.

Bob Hope discusses his 60-year career in show business as part of the "Conversations With..." interview series for The Disney Channel.

all-new "Talespin," which will feature Baloo the Bear and King Louie from the classic film, "The Jungle Book." Together, the four shows will form a two-hour block of animated programming called "The Disney Afternoon." To produce the enormous amount of high-quality animation needed for these shows, Disney has opened studios in Japan, Australia, England and France.

The Disney Afternoon is expected to command over 40 percent of children's syndicated television advertising dollars during the 1990-91 season.

THE DISNEY CHANNEL

The Disney Channel is a phenomenon. In 1989, it continued its steady growth, enjoying strong loyalty and a very low cancellation rate.

When it began operations in 1983, almost 50 percent of its programming came from the Disney library. Now the library provides only 23 percent, the airtime being filled instead with original and acquired programs. As a result, the channel, which once appealed primarily to young children, has become an entertainment service for the entire family.

The brightest addition in 1989 was the new "Mickey Mouse Club." This updated version of the 1950's-era TV show has been a major hit with pre-teens and young teenagers. The show's performers received 42,500 fan letters during the program's first six months. Critics and viewers also praised the channel's mini-series version of Charles Dickens' "Great Expectations." In 1990, subscribers will be treated to "Avonlea," a new weekly series based upon the channel's enormously successful mini-series "Anne of Green Gables" and "Anne of Avonlea."

The enduring classic "Bambi" became the most successful home video release in Disney history, with sales exceeding 10 million units.

The Disney Channel's potential remains tremendous. There are 17 million cabled households with children under the age of 12 – and 44 million cabled households overall – that don't subscribe... yet.

HOME VIDEO

For the second straight year, Buena Vista Home Video was the industry leader.

Recording artist Carole King enchanted her many fans during her "Going Home" concert on The Disney Channel.

1988's box office hit, "Who Framed Roger Rabbit," became one of the top-five all-time home video releases in 1989, with over eight million units sold.

The continued appeal of Disney/Touchstone films clearly was a major reason.

"Cocktail," which ranked eighth in box office during its theatrical run, went on to do even better against the competition in home video, ranking fourth among rental releases.

But this tells only part of the story. Because of Home Video's innovative marketing, every Disney and Touchstone film ranked higher in video release than it did in its theatrical run. For example, "Beaches," 20th at the box office in 1989, ranked tenth in home video.

Thanks to the company's pioneering efforts in "sell-through" marketing, Disney releases account for five of the ten all-time home video best-sellers. "Sell-through" offers videos directly to consumers at special low prices.

A prime example was the fall release of "Bambi." By year's end, more than 10 million units had been sold, making it the most successful Disney home video release in history. It is expected to net the company more than the film has earned in all of its seven theatrical releases since its 1942 premiere.

Rapid home video growth is expected internationally as the rental market expands and the sell-through market continues to develop. In Great Britain alone, profits have doubled, thanks in part to Buena Vista's switch to self-distribution of its product. By 1991, Disney expects to have its product available in 45 countries.

"Honey, I Shrunk the Kids," the number one film comedy in 1989, should prove popular once again when it is released in home video in the spring.

KCAL-TV

The Walt Disney Company is committed to transforming its new acquisition, Los Angeles television station KHJ-TV, into one of the leading independent stations in the country. By year's end, even the station's call-letters had been changed – to KCAL – as part of an effort to create a new identity for "California 9."

In March, KCAL will become the first U.S. station with an all-news prime-time schedule. Jerry Dunphy, a veteran newscaster with a loyal Los Angeles following, will anchor the 8-11 p.m. block. The station has assembled a team of proven broadcast professionals and an extensive newsgathering organization, employing the latest electronic technology.

KCAL already provides a powerful voice for all facets of the company in Southern California and adds another dynamic element to the synergy that continues to propel the success of The Walt Disney Company.

Robert Urich plays the title role in "Spooner," the inspiring Disney Channel premiere movie about a high school wrestling coach.

Veteran newscaster Jerry Dunphy teams up with Pat Harvey to anchor the three-hour prime time newscast that will debut on KCAL-TV in March.

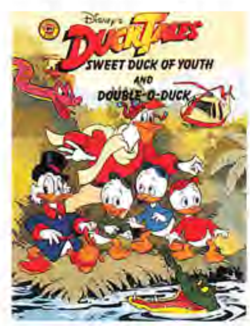
What better way to capture memories of Disneyland than a pair of mouse ears?

The magic of Disney Consumer Products sparkled ever more brightly in 1989. Long-term strategies continued to yield solid returns, lifting revenues 67 percent over 1988. It was the fifth straight year of record growth.

In the United States, retail sales of Disney licensed toys, apparel, gifts, books, comics and music topped $2 billion for the first time, reflecting closer cooperation between Disney and its licensees.

The finishing touches were put on an international reorganization that has placed key vice presidents in each major region of the world. The move is already paying excellent dividends. Earnings in the Asia-Pacific region jumped almost 60 percent after the opening of a headquarters in Hong Kong. Merchandise programs in Japan produced dramatic growth, reaffirming the enormous popularity of the Disney characters there.

In Europe, revenues from all businesses almost doubled, thanks to initiatives in preparation for Euro Disneyland in 1992. Merchandise licensing and Disney's new direct publishing business in Italy made the largest contributions. A regional office to open in Mexico early in 1990 is expected to lay the groundwork for substantial growth throughout Latin America.



Six DuckTales books that originated in Spain are now a success in the United States.

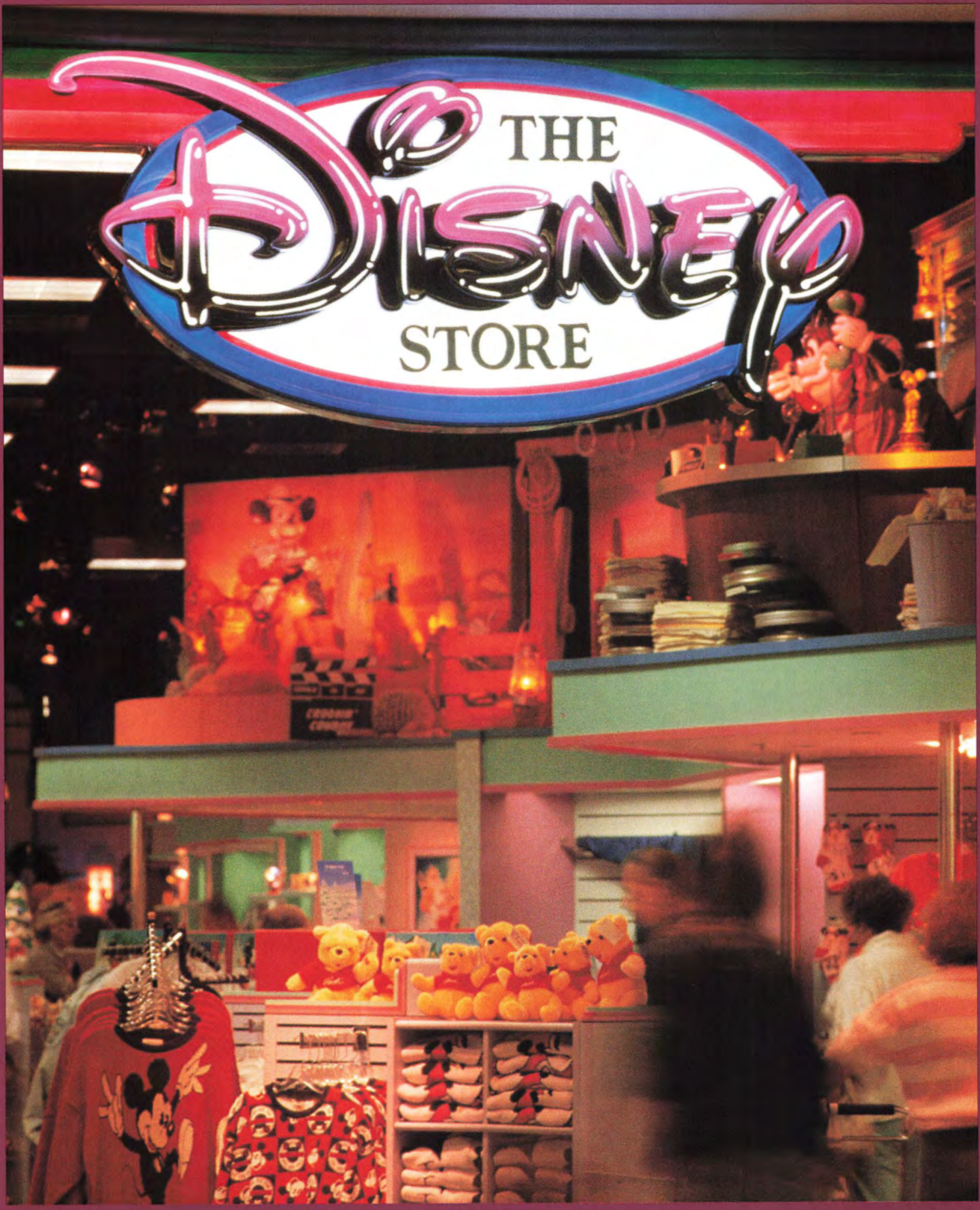
The Disney Stores opened 28 new outlets, bringing the December total to 41 stores in 20 states. The Disney Catalog and Childcraft direct-mail operations sent more than 40 million catalogs to the nation's homes, making Disney one of the largest direct marketers of products for families with children.

In all its activities, Disney Consumer Products worked vigorously to ensure product innovation and quality. It opened a new creative center in Paris at year end, which joins two in the United States and one in Tokyo. At each center, artists work closely with licensees, applying Disney's exacting standards to marketing materials and products sold in more than 60 countries.

Merchandise Licensing around the world was once again the leading contributor of revenue and operating income. In the U.S., Disney and its merchandise licensees are revolutionizing the industry by targeting specific market segments with lines of non-competing products united by a Disney character theme or "brand."

The Disney Babies infant product line is a prime example. In just over two years, it has captured an important share of the $2.2-billion U.S. infant goods market with Disney Babies clothes, toys, strollers, wallpaper, bedding and other items from more than 40 manufacturers.

Major promotional themes again played an important role. Merchandise honoring Mickey's 60th Birthday continued to sell well early in 1989. This segued perfectly into a line of "Hollywood Mickey" products tied to The Disney-MGM Studios Theme Park at



This Disney Store was one of 28 to open during the year, bringing the total to 41 stores in 20 states. These colorful retail centers bring the fun of Disney to some of the nation's most prestigious shopping malls.

Minnie Ooh La La is the latest in the stylish Mickey & Co. line of apparel from J.G. Hook.

Walt Disney World. Several product lines enjoyed especially strong sales, including J.G. Hook's bold Mickey & Co. apparel, Seiko/Lorus watches, Gibson greeting cards, Applause gift collectibles and Dundee Mills infant bedding.

Many programs supported Disney film and television shows. A line of toys, gifts, bedding and books from 37 DuckTales manufacturers sold well above projections. Dozens of licensees helped launch "Chip 'n Dale's Rescue Rangers" in syndication during September and "The Little Mermaid" in movie theaters before Thanksgiving.

The Asia/Pacific region reported an outstanding year, especially in Japan. Working with more than 50 licensees, the Tokyo creative center introduced three successful design themes – "Cinema Mickey," vignettes from Mickey cartoons in repeating patterns, colorful three-dimensional pictures in "Airbrush Mickey" and classic poses for "Mickey 1928."

New plush dolls and jigsaw puzzles enjoyed especially good results, as did innovative designs in apparel. Revenues in these categories were up more than 75 percent.

The effectiveness of the Disney creative center in Japan, the growth of other economies in the region and an intensive anti-counterfeiting program in Southeast Asia promise strong new markets throughout the Asia/Pacific territory in coming years.

Results were excellent in Europe as well. In Germany, "Roger Rabbit" products helped increase revenues 50 percent. United Kingdom merchandise sales increased 35 percent, boosted by a strong program with retailer Marks and Spencer.

Merchandising linked to the holiday release of "Oliver & Company" in Europe was expected to approach the records set by "Roger Rabbit." Some 130 licensees planned tie-in products and promotions with leading retailers and consumer goods companies.

In 1991, a Disney-owned plant in Portugal will begin producing high-quality T-shirts and sweatshirts for Euro Disneyland and licensees, setting quality standards for Disney products throughout Europe in anticipation of the park's opening in 1992.

In Publications, 500 million books and magazines bearing the name Disney, worth almost $1 billion at retail, were sold. The company sold more than 220 million comic books worldwide. Italy's direct publishing operation produced 32 million copies; licensees in Brazil sold 23 million comics magazines.

J.G. Hook's Mickey Western line was another successful introduction in 1989.

Mattel is thriving in the infant and preschool toy market with such Disney toys as the Build 'n Play Main Street Block Set.

New coordinated Disney Babies products include a nursery lamp by Dolly, heart-shaped rug by Dundee Mills and Baby Goofy and Donald from Playskool.

Barton K. Boyd, president of Disney Consumer Products: "The most important thing is to get quality and Disney fun into every single product."

Meanwhile, Disney and its licensees introduced 15 new magazines from Israel to Spain, France to Taiwan.

Two years ago, circulation was declining for *Topolino*, the Mickey Mouse magazine licensed in Italy for almost 50 years. Disney improved artwork and paper quality, increased the number of pages and relaunched the magazine itself with stronger distribution and marketing. Kiosk sales climbed 25 percent in 1989 to as high as 700,000 copies each week.

The company is undertaking similar hands-on involvement in other markets. In Spain, Disney and longtime licensee Abril formed a publishing company that already has launched five new comic books and is re-establishing Disney's leadership in this segment. In Latin America, Disney licensed a joint venture company formed by Abril of Brazil and Cinco in Colombia to publish Spanish-language comics. The venture is expected to triple revenues in this category.

Encouraged by international success, the company will launch its own line of comics in the U.S. in 1990, capitalizing on the popularity of Disney afternoon animated TV shows.

Disney's closer involvement with international product development has also helped transport successful product ideas beyond their original markets. A series of DuckTales books developed in Spain sold a million copies to U.S. retailers before Christmas.

Book publishing in the United States also enjoyed an excellent year. Western Publishing joined with Disney in an aggressive summer promotion of its "Peter Pan" line at almost

Porcelain figurines by Tomorrow Today are an example of Disney's growing success in fine collectibles.

Disney's Topolino *is the third-most-successful weekly magazine in Italy.*

Mattel adds delight to the bath with "Clean Fun Mickey," whose dirt magically disappears in warm water and reappears in cold.

2,000 bookstores, generating substantially higher sales than for earlier film tie-ins. Later, Western promoted a full line of "Little Mermaid" publications in 6,000 retail outlets.

Twin Books' series of six American Classics, based on Disney animated shorts such as "Paul Bunyan," "The Legend of Sleepy Hollow" and "Johnny Appleseed," quickly entered best seller lists. For "The Little Mermaid," W. H. Smith sold more than 200,000 copies of its picture storybook in three months. In another cooperative venture, Disney, Bantam, Doubleday/Dell and Twin in the spring will offer a series of four Winnie the Pooh books created by Disney artists, with a record level of marketing support.

Direct mail flourished in 1989. A series of Disney Babies books offered by Field Publications topped three million copies sold, and a second set is in development.

The Disney Art Program entered an important new phase in June when Sotheby's in New York auctioned 560 animation cels from "Who Framed Roger Rabbit" for $1.7 million, well above expectations.

In the fall, Walt Disney Records reported that even before "The Little Mermaid" had opened in theaters, the film's soundtrack recording had shipped "gold"–500,000 tapes and compact discs, a first for any animated film soundtrack. Sales were supported by the record company's largest consumer promotion ever. More than 50 million newspaper coupons advertised a $1 refund and an exclusive Little Mermaid watch offer.

Four new books starring Winnie and his friends were designed by Disney artists.

The division also introduced four new Winnie the Pooh book-and-cassette collections, plus a special edition on tape and compact disc narrated by Christopher Plummer.

Throughout Europe, Disney music revenues jumped 54 percent, spurred by introduction of more than 100 new products and successful tests of direct distribution by Disney in France. In England, an unprecedented three-year agreement with Pickwick for children's books and audio cassettes will produce 40 titles in the first year. Sales are projected at a million units.

Disney's entry into specialty retailing accelerated in 1989. Disney Stores can now be found in top retail centers in the U.S., such as Faneuil Hall Marketplace in Boston, Century

The hit soundtrack recording of "The Little Mermaid" includes seven memorable songs by Howard Ashman and Alan Menken.

"Benny and the 'Roids," from Disney Educational Productions, alerts teenagers to the dangers of anabolic steroids.

Many new titles augmented Walt Disney Records' fast-growing library of compact discs.

City Shopping Center in Los Angeles and Gallery at Harborplace in Baltimore. Rapid expansion of the Disney Stores will continue in 1990 with two or three new outlets each month. The company is also seeking appropriate sites in London, Paris and Tokyo.

Figment the Dragon, animated "Roger Rabbit"-style into live action settings, makes reading fun in an Educational Productions film series.

Direct marketing activity also increased in 1989 as 12 million copies of The Disney Catalog were mailed. Expanded to 48 pages, the fall issue highlighted some 230 products. In photos and text, the catalog also promoted The Disney-MGM Studios Theme Park.

Childcraft's furniture manufacturing facility in Pennsylvania increased production significantly, making it one of the country's top producers of furniture for the child-care industry.

Walt Disney Computer Software increased development of entertainment programs for home personal computers. The "Who Framed Roger Rabbit" game sold more than 100,000 copies. Ten releases are scheduled for 1990. The software group also licenses Disney properties for 11 million U.S. Nintendo video game machines and similar entertainment centers. Capcom's "Mickey Mousecapades" sold 775,000 copies in 1989, and strong sales were expected for its "DuckTales" game. Four Nintendo products are planned for 1990.

Disney Educational Productions released 54 films, videos and filmstrips and won 24 awards at prestigious educational film festivals.

"Benny and the 'Roids," which demonstrates the physical and psychological effects of anabolic steroid use, became a best seller in 1989. "Benny" has won eight awards, including "Best of Classroom" at the National Educational Film and Video Festival.

CONSUMER PRODUCTS

(In millions)	1989	Change	1988	Change	1987
Revenues	**$411.3**	**+67%**	$247.0	+48%	$167.0
Operating income	**187.1**	**+40%**	133.7	+37%	97.3
Operating margin	**45%**		54%		58%

Revenues and operating income increased in 1989 in both domestic and international markets primarily due to the strength of licensed product sales in apparel, toys and publications influenced by the continuing effect of Mickey's 60th Birthday promotion. International revenues and operating income benefited from Disney's successful entry into direct publishing in Europe.

Revenues and operating income in 1988 increased when compared to 1987 due to greater demand for Disney licensed products and the increasing value of major foreign currencies in relation to the U.S. dollar.

Operating margins have decreased since 1987, reflecting the dramatic revenue increase from expansion into the lower margin businesses of direct publishing, retail and catalog merchandising.

"Peter Pan," produced by Kenneth Feld and Ringling Bros., is one of five Walt Disney's World on Ice arena shows on world tour.

Walt Disney Computer Software games include "DuckTales" and "Mickey Mousecapades" for Nintendo machines, "Roger Rabbit" and "Win, Lose or Draw" for personal computers.

Imagineering show set designers at work on a mockup of the Cranium Command Theater at the Wonders of Life pavilion.

Walt Disney Imagineering concluded the most significant year in its history in 1989, completing major attractions in Florida, California and Japan while exploring new concepts that will keep Disney parks around the world ahead of the competition well into the 21st Century.

At Walt Disney World, a third gated attraction, The Disney-MGM Studios Theme Park, opened in May and was often sold out by early morning. The Typhoon Lagoon water park, Pleasure Island nighttime entertainment center, Epcot Center's Wonders of Life pavilion and the DreamFlight adventure at the Magic Kingdom also opened in 1989.

At Disneyland, Splash Mountain opened to rave reviews. At Tokyo Disneyland, Star Tours and the Astrozone welcomed guests for the first time in a brand-new Tomorrowland area.

At the same time, working closely with Disney Chairman Michael D. Eisner, WDI continued to explore new ride systems, new methods of presenting shows and an entirely new generation of Audio-Animatronics figures. The first of this new family of amazingly lifelike figures–the witch in the Wizard of Oz scene at The Disney-MGM Studios–made its debut in the spring.

To support such an enormous range of activities, WDI began seeking out the hundreds of imaginative people it will need to triple its staff over the next three years.

"We're looking for the very best people, the finest creative talent we can find," said Marty Sklar, WDI's president. "And not just artists and designers - we're hiring creative architects, creative engineers, creative professionals in a wide variety of disciplines who can help us live up to our name."

New attractions are the heart and soul of the theme park business. As the creative development, design, engineering, production and project management arm of The

Artist adds detail to conceptual rendering for Euro Disneyland's Frontierland.

Construction crews build entrance to Star Tours at The Disney-MGM Studios Theme Park during summer. The attraction opens in January.

Walt Disney Company, WDI must conjure up and bring to completion attractions that will keep Disney's parks the best in the world.

Martin A. Sklar (left), president of Walt Disney Imagineering, with Stanley (Mickey) Steinberg, executive vice president.

Already, 150 Imagineers are stationed in France completing the design of Euro Disneyland's Magic Kingdom, scheduled to open in 1992. Because of its importance in Disney's global strategy, the project is under the personal supervision of Mickey Steinberg, WDI's executive vice president.

Another contingent will soon start work on Disney MGM Studios-Europe, opening in 1996 as Euro Disneyland's second gated attraction.

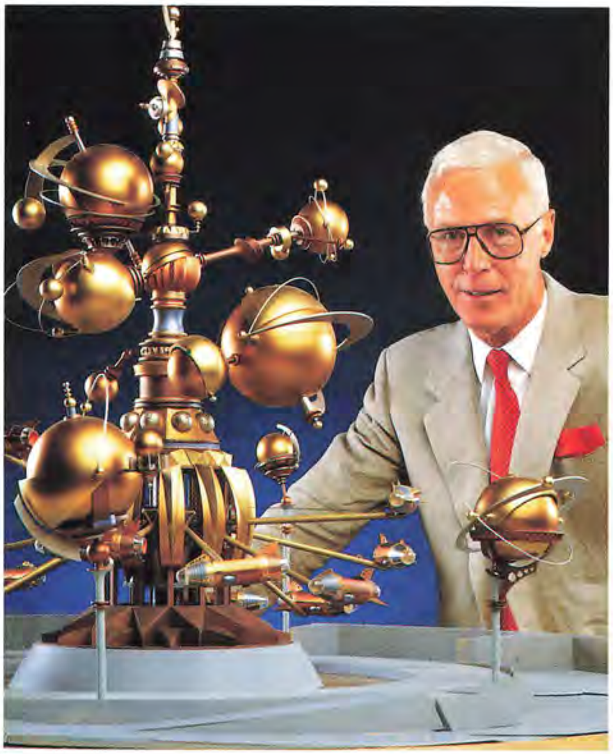
Also on the agenda: projects based on Jim Henson's Muppets, which Disney agreed in principle to buy during the summer, and larger-than-life children's play areas inspired by Disney's hit movie, "Honey, I Shrunk the Kids."

The theme park business worldwide is growing at an astonishing pace. Imagineering's 37 years of experience, organization and unique expertise give it a distinct advantage in this specialized area.

"Walt Disney Imagineering is where the real magic is created," Mr. Eisner said. "I believe it is the most magical organization in the world."

Actors Kevin Nealon (left) and Dana Carvey help the "heart" pump blood in a comic scene in Cranium Command, part of the Wonders of Life pavilion at Epcot Center.

WDI sculptors fashion the miniature and full-scale models for all Disney theme park attractions, including Audio-Animatronics figures.



Euro Disneyland President Robert J. Fitzpatrick with model of L'Orbitron, an attraction that will be part of the park's Discoveryland.

Euro Disneyland made enormous strides during the year toward its scheduled opening in spring 1992.

All underground utilities and retention basins for the Magic Kingdom are in place. Vertical construction will begin early in the new year at the site 20 miles east of Paris.

Already, more than 29 million cubic feet of earth has been moved to carve out riverbeds and build the berms that surround the park. More than 50,000 trees and shrubs planted early this year are thriving on the newly formed terrain.

Construction is complete – ahead of schedule – on the first expressway interchange, and the trench forming the right-of-way for the seven-mile extension that will link the site to the Paris Metro system on opening day can be plainly seen.

All 85.9 million shares of Euro Disneyland SCA's stock flotation sold out quickly on European exchanges in October. The shares represent 51 percent of the company that will own the resort and operate the park. Disney itself retains the remaining 49 percent.

By year end, Renault, Europcar, Banque Nationale de Paris and Kodak had signed participant partnerships that extend into the 21st Century. Similar agreements with other major partners were near completion.

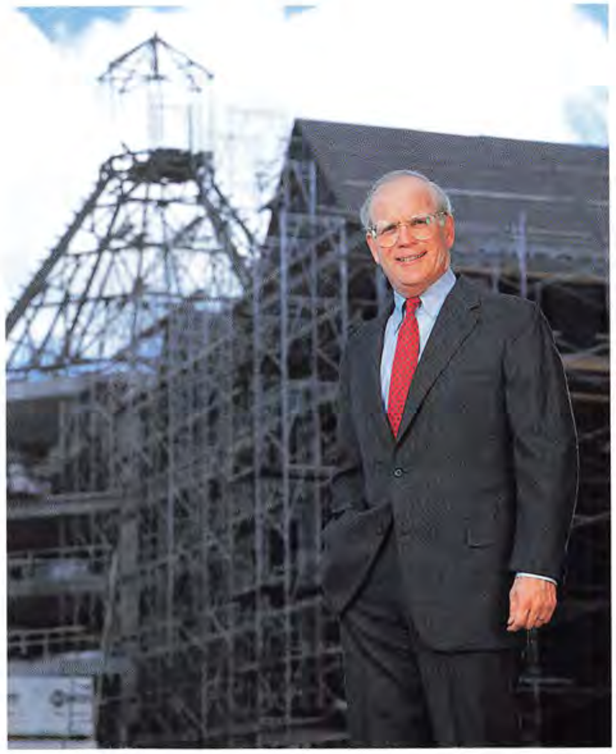
Staff training began in earnest, with European management spending up to six months at Disney parks and hotels in Florida, California and Japan.

In November, President Robert J. Fitzpatrick announced plans for a second gated attraction, Disney MGM Studios-Europe. The new park will be modeled after the similar attraction at Walt Disney World and will include state-of-the-art film and television production facilities. It will open in 1996.

Impact Day for the Euro Disneyland stock offering on the Paris Bourse. The opening-day offering price was announced simultaneously in Paris and London.

When journalists and financial analysts toured Euro Disneyland in September, they saw models of the park and were greeted by Disney characters at the site.

The pace at Disney Development Company continued to quicken in 1989.



Peter S. Rummell, president of Disney Development Company, with the Disney Yacht and Beach Club hotels under construction in background.

DDC, which works with other Disney divisions to develop and manage construction projects, completed the 65,000-square-foot Casting Center, the 2,012-room Caribbean Beach Resort, the 137,000-square-foot Crossroads shopping center and the 10-screen AMC Theatres project at Walt Disney World during the year.

In addition, it finished work on the massive infrastructure and area development program for the Disney Center in Florida, which eventually will comprise five hotels – Disney's Beach and Yacht Club, the Walt Disney World Swan and Dolphin, the Boardwalk nighttime entertainment facility and hotel – as well as meeting and convention facilities and a second entrance to Epcot Center.

Other projects in Florida: the Walt Disney World office building, the 3,056-room Port Orleans and Dixie Landings resort complex. In California, the Michael Graves-designed corporate office building is nearing completion.

The planned shopping, dining and entertainment center near the Disney Yacht and Beach Club hotels at Walt Disney World may include a traditional roller coaster.

A painter enamels trim on the roofline at the Disney Yacht Club Hotel, which will open in the fall.

Disney Development Company oversaw construction of the Walt Disney World Casting Building, designed by the noted architect Robert A. M. Stern, that opened in the spring.

(In millions, except per share data)

Financial Objectives

The Walt Disney Company's economic goal is to maximize stockholders' value by consistently meeting the following objectives.

- Increase earnings per share (EPS) at 20% annually over any five year period.
- Maintain high capital productivity with 20% return on equity (ROE) through profitable reinvestment of cash flows.

Achievement of these objectives on a consistent basis has created dramatic value increases for the Company's stockholders. The market value of Disney's equity increased over eight times from $2 billion in 1984 to $16.4 billion in 1989.

- EPS from continuing operations rose 34% in 1989 and has increased at an average of 62% annually over the past five years.
- ROE was 26% in 1989 compared to 8% in 1984.

Earnings and ROE performance place the Company among the top of the Standard & Poor's 500 firms, as shown on the charts below.

The Company generates cash flow substantially in excess of earnings and capital investments. The table below shows that cash flow has averaged 129% higher than accounting earnings over the past five years. Cash flow has exceeded the Company's steadily increasing capital investment program by an average of over $240 million per year over the last five years.

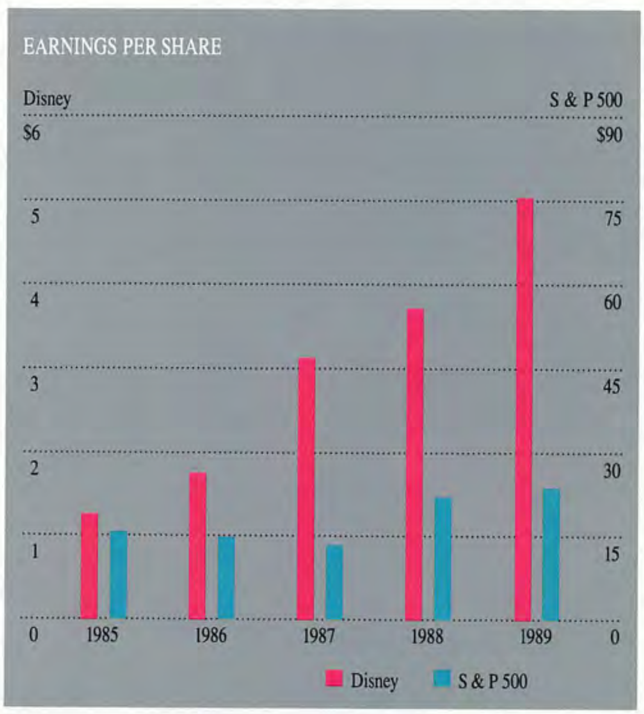
Year	Net Income	Cash Flow	Capital Investment
1985	$173.5	$ 518.8	$ 329.7
1986	247.3	668.4	377.8
1987	444.7	830.6	458.4
1988	522.0	1,075.4	821.4
1989	703.3	1,275.6	1,176.3

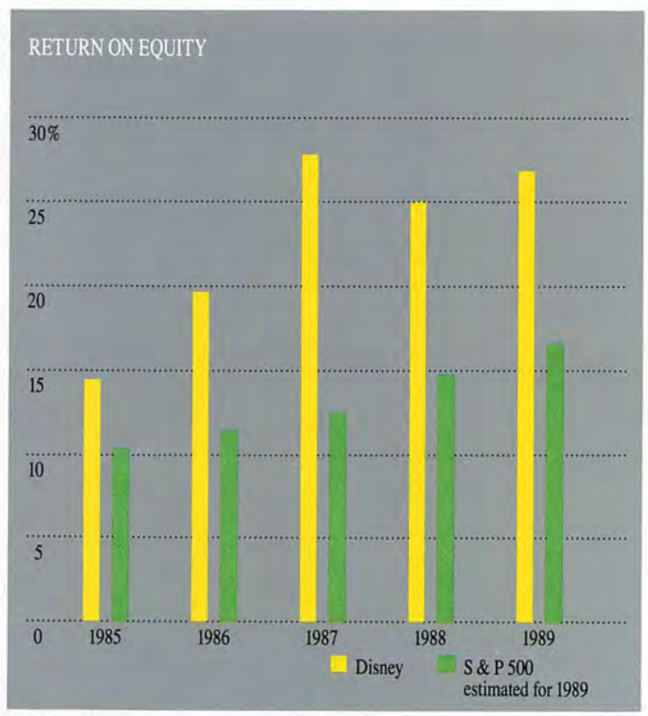
Unused debt capacity is approximately $4 billion. Strong earnings before interest and taxes have increased the coverage of interest expense to 16 times in 1989 as compared to less than one in 1984. The combination of high cash flows and substantial unused debt capacity provides the Company with the financial resources to expand and support earnings growth into the 1990's.

Expansion by internal development and acquisition is a major contributor to the Company's earnings growth. New investments must be consistent with our strategic plan and meet our rigorous financial criteria. Major expansion projects under development follow.

	Rooms
• Euro Disneyland	
• Euro Disneyland second theme park	
• Doubling of The Disney-MGM Studios Theme Park capacity	
• Southern California second theme park	
• Tokyo Disneyland second theme park	
• Walt Disney World hotel expansion	Rooms
Resort and convention hotels	
–The Swan	758
–The Dolphin	1,509
–Yacht & Beach Club	1,214
–Other resort properties	3,000
Moderately priced hotels	3,056
	9,537
• Euro Disneyland hotels	5,200
	14,737
• Hollywood Pictures	
• Television development	
• The Disney Stores expansion	

New projects under construction or development, combined with the ability to increase earnings from existing assets, principally through pricing flexibility at the parks, provide a high probability of the Company achieving its earnings growth goals in the 1990's.





Operations

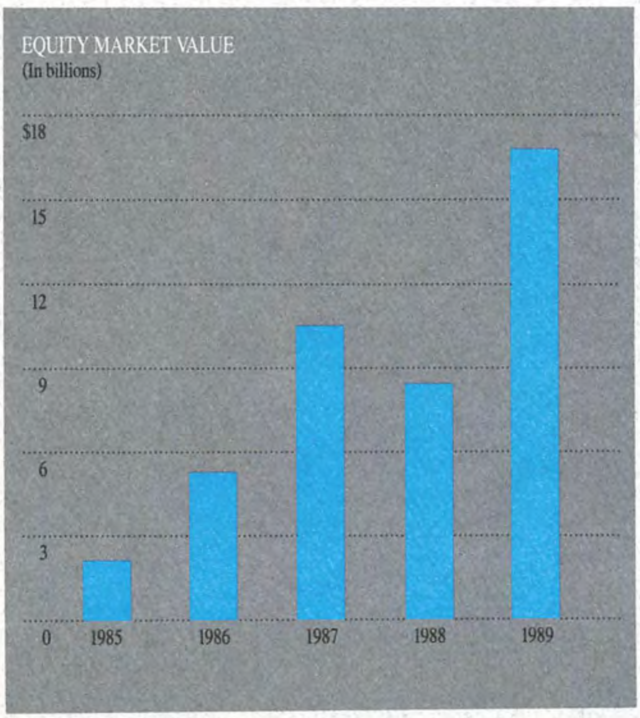
Revenues and Earnings
In 1989, the Company generated record-level revenues of $4.6 billion, an increase of 34% over 1988. The compounded annual growth rate for revenues for the last five years is 26%. Net income increased by 35% to $703 million setting a record for the fifth consecutive year.

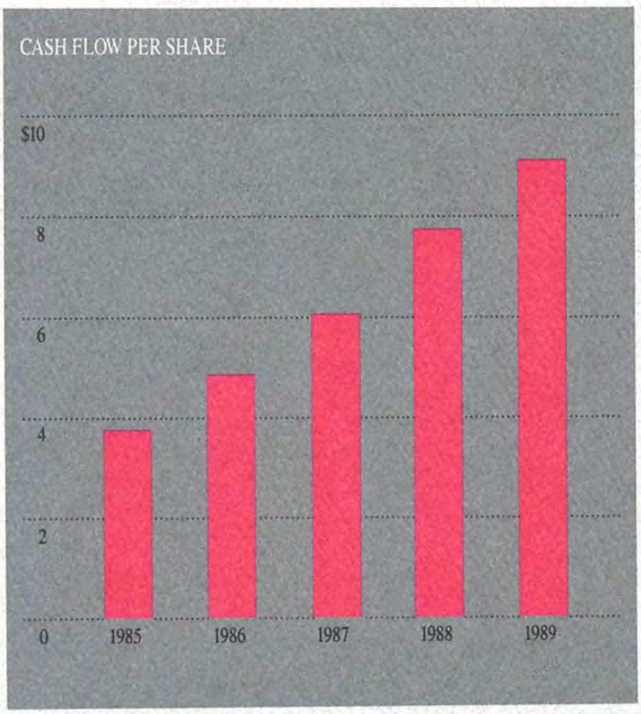
	1989	Change	1988	Change	1987
Revenues	**$4,594.3**	**+34%**	$3,438.2	+20%	$2,876.8
Operating income	**1,229.0**	**+39%**	884.8	+14%	776.8
Operating margin	**27%**		26%		27%
Income from continuing operations	**703.3**	**+35%**	522.0	+33%	392.3
Per share	**5.10**		3.80		2.85

Operating income increased 39% to over $1.2 billion, exceeding the one billion dollar level for the first time in the Company's history. Each of the Company's three operating business segments contributed to the record performance in 1989. Theme Parks and Resorts results increased 39% reflecting the May, 1989 opening of The Disney-MGM Studios Theme Park, higher per capita guest spending, greater attendance and expanded resort operations. The Filmed Entertainment group generated a 38% increase in operating income due to exceptional home video sales and strong syndication and pay television results. Consumer Products operating income increased 40% due to continuing strong demand for Disney licensed product in domestic and international markets as well as direct publishing in Europe.

Operating margin of 27% remained strong, reflecting management's efforts to increase revenues with creative marketing and pricing programs while also controlling costs.

Operating results and management's financial review of operations by business segment are discussed in the forepart of this report.





Corporate Expenses and Income

	1989	Change	1988	Change	1987
General and administrative	**$119.6**	**+25%**	$96.0	+37%	$70.3
Percent of revenues	**2.6%**		2.8%		2.4%

General and administrative (G&A) expenses increased in 1989 and 1988 due primarily to performance-related incentive programs and additional costs incurred to support the growth in the Company's operations. G&A as a percent of revenues has decreased from 3.6% in 1984 to 2.6% in 1989.

	1989	Change	1988	Change	1987
Interest expense	**$23.9**	**–**	$5.8	−80%	$29.1
Average year end interest rate	**8.5%**		8.4%		6.8%

Interest expense increased in 1989 due primarily to increased borrowings for the Company's acquisition and capital spending programs. Interest expense in 1988 declined when compared to 1987 due to lower average borrowings and an increase in capitalized interest due to greater investing activities.

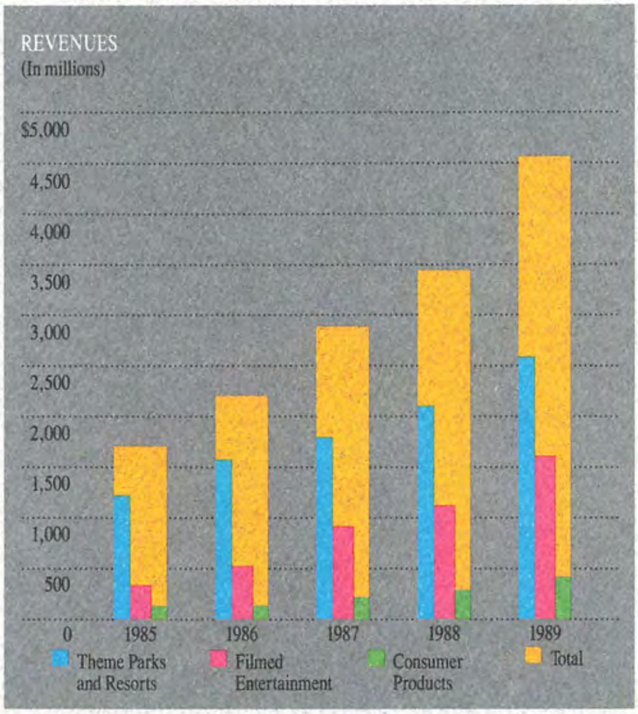
	1989	Change	1988	Change	1987
Investment and interest income	**$67.4**	**+14%**	$58.9	+20%	$49.0

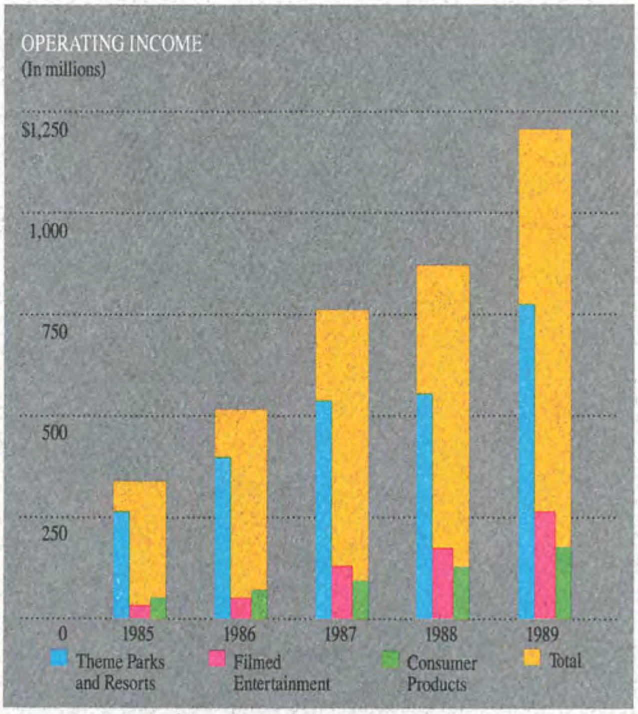
The increase in investment and interest income over the past two years reflects the income generated on the Company's higher cash and marketable securities balances.

Income Taxes

	1989	Change	1988	Change	1987
Income taxes	**$449.6**	**+41%**	$319.9	−4%	$334.1
Effective income tax rate	**39.0%**		38.0%		46.0%

See Note 6 to the Financial Statements on page 47 for an explanation of the Company's effective tax rate.





CONSOLIDATED STATEMENT OF INCOME

(In millions, except per share data)

Year ended September 30	1989	1988	1987
Revenues			
Theme parks and resorts	**$2,595.4**	$2,042.0	$1,834.2
Filmed entertainment	**1,587.6**	1,149.2	875.6
Consumer products	**411.3**	247.0	167.0
	4,594.3	3,438.2	2,876.8
Costs and Expenses			
Theme parks and resorts	**1,810.0**	1,477.2	1,285.3
Filmed entertainment	**1,331.1**	962.9	745.0
Consumer products	**224.2**	113.3	69.7
	3,365.3	2,553.4	2,100.0
Operating Income			
Theme parks and resorts	**785.4**	564.8	548.9
Filmed entertainment	**256.5**	186.3	130.6
Consumer products	**187.1**	133.7	97.3
	1,229.0	884.8	776.8
Corporate Expenses (Income)			
General and administrative	**119.6**	96.0	70.3
Interest expense	**23.9**	5.8	29.1
Investment and interest income	**(67.4)**	(58.9)	(49.0)
	76.1	42.9	50.4
Income From Continuing Operations Before Income Taxes	**1,152.9**	841.9	726.4
Income taxes	**449.6**	319.9	334.1
Income From Continuing Operations	**703.3**	522.0	392.3
Discontinued operations, net			52.4
Net Income	**$ 703.3**	$ 522.0	$ 444.7
Earnings Per Share			
Continuing operations	**$ 5.10**	$ 3.80	$ 2.85
Discontinued operations			.38
	$ 5.10	$ 3.80	$ 3.23
Average Number of Common and Common Equivalent Shares Outstanding	**138.0**	137.4	137.8

Financial Position

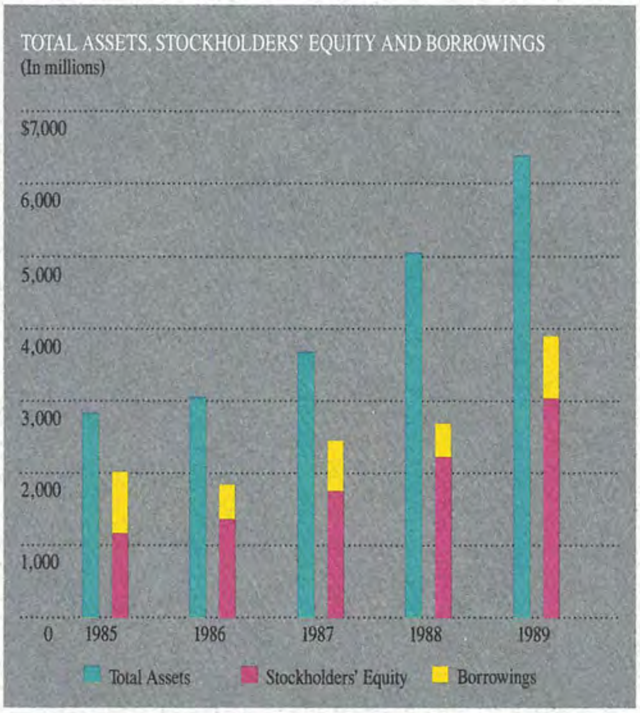
Assets

The Company's approach to disciplined asset management has allowed it to meet a primary corporate goal of maximizing stockholder value. Return on assets in 1989 was 12%, up from 6% in 1985. The return remains strong despite a 23% compounded growth in total assets from $2.9 billion in 1985 to $6.7 billion in 1989.

	1989	Change	1988	Change	1987
Total assets	**$6,657.2**	**+30%**	$5,108.9	+34%	$3,806.3
Return on assets	**12%**		12%		13%

The increase in total assets reflects strategic investments by the Company in entertainment attractions, Euro Disneyland and KCAL-TV Los Angeles. The Company also invests in network television, first-run syndication and broadcast programming. Theatrical production costs continue to be primarily funded by Silver Screen Limited Partnerships.

The Company received over $1.0 billion in cash during 1988 from advanced royalties and the collection of notes receivable from the sale of the net assets of its Community Development segment.



Liabilities and Stockholders' Equity

	1989	Change	1988	Change	1987
Borrowings	**$860.6**	**+98%**	$435.5	−25%	$584.5
Ratio to total capital	**22%**		16%		24%

The ratio of borrowings to total capital increased to 22% from 16% the previous year reflecting increased borrowings used for the Company's Euro Disneyland investment and advances, and the acquisition of KCAL-TV.

	1989	Change	1988	Change	1987
Unearned royalty and other advances	**$912.7**	**+11%**	$823.3	-	$193.2

In 1988, the Company entered into a transaction which effectively monetized a substantial portion of its future royalties from certain Tokyo Disneyland operations through 2008. The transaction, which resulted in the recording of approximately $594 million to be recognized as earned over the term of the transaction, did not have a significant effect on earnings. The transaction ensures that most of the Company's income from Tokyo Disneyland royalty sources will not be affected by future fluctuations in the yen/dollar exchange rate.

	1989	Change	1988	Change	1987
Stockholders' equity	**$3,044.0**	**+29%**	$2,359.3	+28%	$1,845.4
Per share	**22.50**	**+27%**	17.71	+26%	14.02
Return on equity	**26%**		25%		27%

The Company's strong operating results have enabled it to sustain a high return on equity. Since 1984, stockholders' return on equity has increased from 8% to 26%.

Financial Resources and Liquidity

The Company's financial condition remains exceptionally strong and the Company has the resources necessary to meet future financing requirements. In addition to cash flow from operations, the Company has sufficient unused debt capacity to finance its ongoing capital investment programs as well as to take advantage of internal and external development and acquisition opportunities.

CONSOLIDATED BALANCE SHEET

(In millions)

September 30	1989	1988
Assets		
Cash	**$ 380.8**	$ 428.0
Marketable securities	**662.3**	668.6
Receivables	**908.5**	561.5
Merchandise inventories	**224.3**	159.9
Film costs	**443.3**	211.0
Theme parks, resorts and other property, at cost		
Attractions, buildings and equipment	**4,143.3**	3,322.5
Accumulated depreciation	**(1,217.3)**	(1,065.2)
	2,926.0	2,257.3
Projects in progress	**407.4**	511.1
Land	**63.9**	53.3
	3,397.3	2,821.7
Other assets	**640.7**	258.2
	$6,657.2	$5,108.9
Liabilities and Stockholders' Equity		
Accounts payable and other accrued liabilities	**$1,011.4**	$ 698.7
Income taxes payable	**250.9**	204.3
Borrowings	**860.6**	435.5
Unearned royalty and other advances	**912.7**	823.3
Deferred income taxes	**577.6**	587.8
Stockholders' equity		
Common stock, $.10 par value		
Authorized – 300.0 million shares		
Outstanding – 135.3 million shares and 133.2 million shares	**392.8**	349.6
Retained earnings	**2,651.2**	2,009.7
	3,044.0	2,359.3
	$6,657.2	$5,108.9

Cash Flows

Cash Provided by Continuing Operations

Operating cash flow for 1989 increased to $1.3 billion reflecting greater profitability of all operating divisions.

	1989	Change	1988	Change	1987
Cash flow	**$1,275.6**	**+19%**	$1,075.4	+29%	$830.6
Ratio to borrowings	**197%**		211%		147%

Investing Activities

Investing activities in theme parks, resorts and other property increased to $749.6 million and are expected to remain at that level over the next year as the Company continues to develop its properties at Walt Disney World and other locations.

	1989	Change	1988	Change	1987
Theme parks, resorts and other property	**$749.6**	**+26%**	$595.7	+113%	$280.1
Film costs	**426.7**	**+89%**	225.7	+27%	178.3

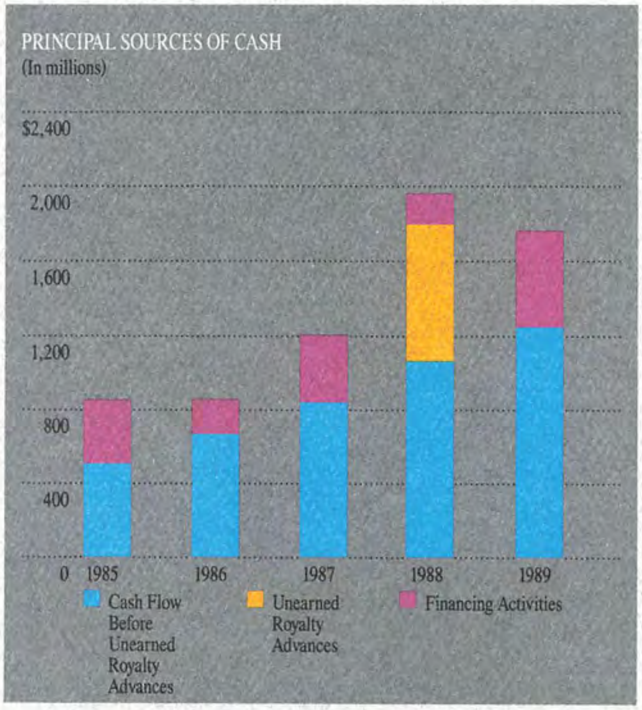
Additions to theme parks, resorts and other property consist primarily of The Disney-MGM Studios Theme Park, Caribbean Beach Resort Hotel, Pleasure Island, Typhoon Lagoon and the Wonders of Life Pavilion at Walt Disney World and Splash Mountain at Disneyland. The Disney-MGM Studios Theme Park, a separately gated attraction, opened in May, 1989 with a cost in excess of $500 million. Due to strong attendance at The Disney-MGM Studios Theme Park, the Company has announced plans to double the size and capacity of the park over the next three years. The Company is evaluating the feasibility of a second major theme park and resort development in Southern California.

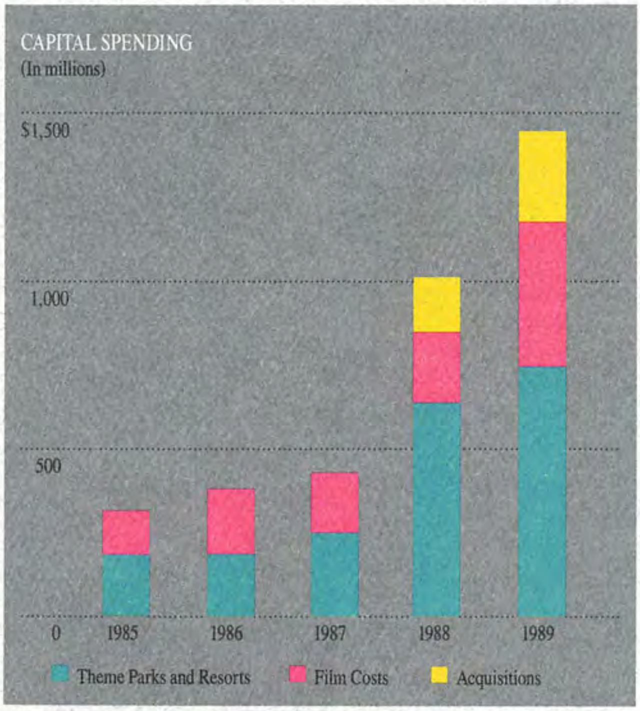
The Company plans to finance future theme park and resort attractions, hotels and other development projects with third parties when the economic terms are attractive. Consistent with that strategy, the Company has a 49% equity ownership interest in Euro Disneyland, a theme park and resort complex being developed near Paris, France, opening in 1992. Equity and debt financing of over $3 billion has been obtained by Euro Disneyland S.C.A., a publicly traded French company that will own and operate the complex. The Company will receive substantial royalties and management fees as the manager of Euro Disneyland S.C.A.

Financing Activities

At September 30, 1989, the Company has outstanding $407 million in commercial paper with an average interest rate of 8.9%.

Certain of the Company's debt issuances have been converted to yen obligations at lower average interest rates. The Company has hedged its yen borrowings and a portion of its cumulative yen royalties from certain Japanese royalty sources, thus offsetting the effects of fluctuations in the exchange rate.





CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions)

Year ended September 30	1989	1988	1987
*Cash Provided by Continuing Operations Before Income Taxes**	**$1,688.8**	$1,322.1	$1,073.4
Income taxes paid, net	**(413.2)**	(246.7)	(242.8)
	1,275.6	1,075.4	830.6
Unearned royalty advances		722.6	
Investing Activities			
Theme parks, resorts and other property, net	**749.6**	595.7	280.1
Film costs	**426.7**	225.7	178.3
Acquisitions	**237.3**	221.7	
Marketable securities, net	**(6.3)**	658.5	10.1
Euro Disneyland and other	**321.9**	207.9	38.3
	1,729.2	1,909.5	506.8
Financing Activities			
Borrowings	**452.3**	85.0	342.4
Reduction of borrowings	**(27.2)**	(322.7)	(279.7)
Cash dividends	**(61.8)**	(50.5)	(42.0)
Other	**43.1**	42.4	24.0
	406.4	(245.8)	44.7
Cash Provided (Required) by Discontinued Segment		441.3	(94.5)
Increase (Decrease) in Cash	**(47.2)**	84.0	274.0
Cash, Beginning of Year	**428.0**	344.0	70.0
Cash, End of Year	**$ 380.8**	$ 428.0	$ 344.0

*The difference between income from continuing operations before income taxes as shown on the Consolidated Statement of Income and cash provided by continuing operations before income taxes is explained as follows:

Income from continuing operations before income taxes	**$1,152.9**	$ 841.9	$ 726.4
Charges to income not requiring cash outlays:			
Depreciation	**191.5**	148.6	143.1
Amortization of film costs	**272.1**	189.5	233.6
Changes in:			
Receivables	**(131.4)**	(43.0)	(145.7)
Merchandise inventories	**(64.4)**	(24.7)	(31.8)
Accounts payable and other accrued liabilities	**169.6**	198.7	156.2
Unearned royalty and other advances	**89.4**	36.6	27.0
Other	**9.1**	(25.5)	(35.4)
	535.9	480.2	347.0
Cash provided by continuing operations before income taxes	**$1,688.8**	$1,322.1	$1,073.4

Presentation of the Financial Information

Management's explanation and interpretation of the Company's overall operating results and financial position, together with the basic financial statements, as presented in this section, should be read in conjunction with the entire report. For readers desiring additional detailed financial information, the notes to consolidated financial statements, although an integral part of the basic financial statements, are included in a separate section of this report.

Management is responsible for the preparation of the Company's consolidated financial statements and related information appearing in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the Company's financial position and results of operations in conformity with generally accepted accounting principles. Management has also included in the Company's financial statements amounts that are based on estimates and judgments which it believes are reasonable under the circumstances.

The independent accountants examine the Company's consolidated financial statements in accordance with generally accepted auditing standards and provide an objective, independent review of the fairness of reported operating results and financial position.

The Board of Directors of the Company has an Audit Review Committee composed of five nonmanagement Directors. The Committee meets periodically with financial management, the internal auditors and the independent accountants to review accounting, control, auditing and financial reporting matters.

Registrar and Stock Transfer Agent
Security Pacific National Bank

Stock Exchanges
The Common Stock of the Company is listed for trading on the New York (principal market), Pacific, Swiss and Tokyo Stock Exchanges. Certain debt securities of the Company are listed on the Luxembourg and Swiss Stock Exchanges.

Independent Accountants

Price Waterhouse, Los Angeles

Other Information

A copy of the Company's annual report to the Securities and Exchange Commission (Form 10-K) will be furnished without charge to any stockholder upon written request to Stock Transfer Agent, Security Pacific National Bank, P.O. Box 60070, Terminal Annex, Los Angeles, California 90060-0070.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
of The Walt Disney Company

In our opinion, the consolidated balance sheet (page 41) and the related consolidated statements of income (page 39) and of cash flows (page 43) present fairly, in all material respects, the financial position of The Walt Disney Company and its subsidiaries at September 30, 1989 and 1988, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1989, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Los Angeles, California
November 20, 1989

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(To be read in conjunction with the consolidated financial statements on pages 39, 41 and 43.)

1 *Description of the Business and Summary of Significant Accounting Policies*

THE WALT DISNEY COMPANY and its subsidiaries (the Company) is a diversified international company engaged in family entertainment with operations in the following business segments.

THEME PARKS AND RESORTS

The Company owns and operates the Disneyland theme park, Disneyland Hotel and other attractions in California and the Walt Disney World destination resort in Florida. The Walt Disney World destination resort includes the Magic Kingdom, Epcot Center, The Disney-MGM Studios Theme Park, hotels and villas, a nighttime entertainment complex, shopping villages, a conference center, campgrounds, golf courses and other recreational facilities. The Company earns royalties on revenues generated by the Tokyo Disneyland theme park near Tokyo, Japan, which is owned and operated by an unrelated Japanese corporation. The Company is an equity investor in Euro Disneyland currently under construction near Paris, France.

FILMED ENTERTAINMENT

The Company produces and acquires live action and animated motion pictures for distribution to the theatrical, television and home video markets. The Company also produces original television product for network and first run syndication markets. The Company distributes its filmed product through its own distribution and marketing companies in the United States and primarily through foreign distribution companies throughout the rest of the world. The Company invests in programming for and operates The Disney Channel, a pay television programming service, and a Los Angeles television station.

CONSUMER PRODUCTS

The Company licenses the name Walt Disney, its characters, its literary properties and its songs and music to various manufacturers, retailers, printers and publishers. The Company produces audio products primarily for the children's market, produces film, audio and computer software products for the educational market, and is a direct mail marketer of educational toys for children. The Company licenses and distributes these products throughout the world. In Europe, the Company has direct publishing operations. In addition, the Company owns and operates The Disney Stores, which provide retail outlets for the Company's merchandise in selected markets throughout the United States.

In 1987, the Company sold the net assets of its Community Development segment, now reflected as discontinued operations, for approximately $400 million.

1 *Description of the Business and Summary of Significant Accounting Policies (cont.)*

The following is a summary of the Company's significant accounting policies:

Revenue Recognition

Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited domestically and when revenues are reported from foreign distributors; revenues from television licensing agreements are recorded when the program material is available for telecasting by the licensee and when certain other conditions are met.

Revenues from participants/sponsors at the theme parks are recorded over the period of the applicable agreements commencing with the opening of the attraction.

Cash

Cash consists of cash on hand and cash equivalents with original maturities of three months or less.

Marketable Securities

Marketable securities are carried at cost. Realized gains and losses are determined on an average cost basis. At September 30, 1989, unrealized gains amounted to $80.7 million. At September 30, 1988, cost approximated market.

Merchandise Inventories

Costs of merchandise, materials and supplies inventories are generally determined on the moving average basis and are stated at the lower of cost or market.

Film Costs

Film production costs are amortized and participation expense is accrued in the ratio that the current period's gross revenues bear to estimated total gross revenues from all sources on an individual production basis. Estimates of total gross revenues are reviewed periodically and amortization is adjusted accordingly. Television broadcast rights are principally amortized on an accelerated basis over the estimated useful lives of the programs.

Theme Parks, Resorts and Other Property

Depreciation is provided principally on the straight-line method using estimated service lives ranging from three to fifty years.

Other Assets

Rights to the name, likeness and portrait of Walt Disney, goodwill and other intangible assets are being amortized over periods of up to forty years.

2 *Film Costs*

(In millions)	1989	1988
Film Production Costs		
Released, less amortization	$133.3	$ 81.9
Completed but not released	12.6	
In process	145.4	91.9
	291.3	173.8
Broadcast Program Rights	152.0	37.2
	$443.3	$211.0

Based on management's total gross revenue estimates as of September 30, 1989, approximately 84% of unamortized film production costs applicable to released theatrical and television productions will be amortized during the next three years. Television programming included in film production costs totals $150.3 million and $87.0 million at September 30, 1989 and 1988, respectively.

3 *Investment in Euro Disneyland*

Euro Disneyland is a theme park and resort complex being developed on a 4,800-acre site near Paris, France opening in 1992. In October 1989, Euro Disneyland S.C.A. completed certain equity and debt financing arrangements which raised approximately $1 billion of equity capital and made available various borrowing facilities totalling approximately $2.2 billion.

The Company is an equity investor in Euro Disneyland S.C.A., a publicly traded French company that will own and operate the complex. At September 30, 1989, the Company had an investment of $132 million and had made advances of $324 million related to Euro Disneyland's development. Subsequent to September 30, the Company has received repayment of certain advances amounting to $253 million.

The Company holds a 49% ownership interest in Euro Disneyland S.C.A. and is using the equity method of accounting for its investment. The Company's share of the net assets of Euro Disneyland S.C.A. exceeds its investment by approximately $375 million and the Company will recognize this difference ratably over an eight year period, representing its contractual commitment to manage the development and operation of the complex and maintain an ownership interest of at least 17%. The market value of the Company's investment in Euro Disneyland S.C.A. exceeded the Company's carrying value at November 20, 1989 after public trading had commenced, by approximately $1 billion.

4 *Borrowings*

(In millions)	1989	1988
Commercial paper	$407.3	
14.50% loan due January, 1998	67.0	$ 67.0
4.75% Swiss franc bonds due October, 1996	64.7	64.7
9.125% ECU notes due March, 1995, principal payable in annual installments of $12.5 commencing March, 1991	62.4	62.4
8.75% ECU notes due February, 1994, principal payable in annual installments of $5.4 commencing February, 1990 with balance due at maturity	54.1	54.1
14.50% Australian dollar notes due May, 1990	52.4	52.4
6.625% Euroyen notes due February, 1996	49.5	49.5
10.14% loan due August, 1999, principal and interest due in equal annual payments	40.0	
Other	63.2	85.4
	$860.6	$435.5

Certain of the Company's foreign debt issuances have been converted to Japanese yen obligations at lower interest rates ranging from 4.25% to 7.07%. The Company has hedged its yen borrowings and a portion of its cumulative yen royalty receipts from certain Japanese royalty sources, thus offsetting the impact of exchange rate fluctuations.

The Company has available through 1992 unsecured revolving lines of bank credit of up to $375 million for general corporate purposes, including the support of commercial paper borrowings. The Company has the option to borrow at various interest rates not to exceed LIBOR plus 1/4%.

Borrowings, excluding commercial paper, have the following scheduled maturities (in millions): $78.6 in 1990; $24.5 in 1991; $25.3 in 1992; $26.1 in 1993; $54.0 in 1994 and $244.8 thereafter.

The Company capitalizes interest on assets constructed for its theme park and resort developments, and on theatrical and television productions in process. In 1989, 1988 and 1987, respectively, total interest costs incurred were $76.0, $37.5 and $52.7 million, of which $52.1, $31.7 and $23.6 million were capitalized.

5 *Unearned Royalty and Other Advances*

(In millions)	1989	1988
Tokyo Disneyland royalty advances	**$573.1**	$586.8
Other	**339.6**	236.5
	$912.7	$823.3

In 1988, the Company received approximately $723 million as a result of a transaction which effectively monetized a substantial portion of its royalties from certain Tokyo Disneyland operations through 2008. The Company is required to continue to meet its obligations under its contract with Oriental Land Co., Ltd., the owner and operator of Tokyo Disneyland. A portion of the royalties were included in the Company's hedge program. As of September 30, 1989, $106 million will be recognized against the related hedge losses over the remaining life of the program. Unearned royalties are amortized over the term of the transaction. The terms of the transaction require that the Company fund up to $145 million under certain circumstances. The Company does not currently anticipate having to fund any significant portion of this amount. All royalties earned in excess of specified amounts in any year accrue to the benefit of the Company. This transaction ensures that most of the Company's income from Tokyo Disneyland royalty sources through 2008 will not be affected by future fluctuations in the yen/dollar exchange rate.

6 *Income Taxes*

(In millions)	1989	1988	1987
Income Before Income Taxes			
Domestic (including U.S. exports)	**$1,102.5**	$814.0	$697.8
Discontinued operations			71.3
Foreign subsidiaries	**50.4**	27.9	28.6
	$1,152.9	$841.9	$797.7
Provision for Income Taxes			
Current			
Federal	**$ 356.6**	$250.8	$212.5
State	**55.8**	44.0	37.1
Foreign subsidiaries	**21.4**	12.9	10.9
Other foreign	**26.0**	20.4	14.2
	459.8	328.1	274.7
Deferred			
Federal	**(23.4)**	(7.5)	61.4
State	**13.2**	(.7)	16.9
	(10.2)	(8.2)	78.3
	$ 449.6	$319.9	$353.0

Included in the provision for income taxes for 1987 is a provision for discontinued operations of $18.9 million. The effect of Statement of Financial Accounting Standards No. 96, Accounting for Income Taxes, on the Company's consolidated financial statements is not determinable at this time.

Components of Provision for Deferred Income Taxes	1989	1988	1987
Depreciation and amortization	**$ 34.5**	$ 18.6	$ 15.1
Licensing revenues	**(23.5)**	11.8	39.8
Installment sales	**.8**	(35.1)	40.2
Capitalized interest and property taxes	**(1.6)**	(1.8)	(16.2)
Other	**(20.4)**	(1.7)	(.6)
	$ (10.2)	$ (8.2)	$ 78.3

Reconciliation of Effective Income Tax Rate	1989	1988	1987
Federal income tax rate	**34.0%**	34.0%	43.0%
State income taxes, net of Federal income tax benefit	**4.0**	3.4	3.9
Other	**1.0**	.6	(2.7)
	39.0%	38.0%	44.2%

7 *Pension Programs*

The Company contributes to various tax-qualified pension plans under union and industry-wide agreements. Contributions are based upon the hours worked or gross wages paid to covered employees. The Company's share of the unfunded liability, if any, related to these multi-employer plans is not determinable.

The Company also maintains tax-qualified pension plans covering most of its domestic salaried and hourly employees not covered by union or industry-wide pension plans and a non-qualified, unfunded key employee retirement plan.

With respect to the defined benefit pension plans, the Company's policy is to fund, at a minimum, the amount necessary on an actuarial basis to provide for benefits in accordance with the requirements of ERISA. Benefits are generally based on years of service and/or compensation.

Pension cost is summarized as follows:

(In millions)	1989	1988
Service cost of current period	**$21.1**	$21.1
Interest cost on projected benefit obligations	**16.5**	14.0
Actual (gain) loss on plan assets	**(14.5)**	7.5
Net amortization and deferral	**.7**	(19.7)
Net pension cost	**$23.8**	$22.9

The weighted average discount rate and the rate of increase in compensation level used were 9.5% and 6.5%, respectively. The expected long-term rate of return on plan assets was 9.5%.

The aggregate amount expensed for all of these plans was $17.3 million for 1987 and was calculated based upon actuarial interest rate assumptions ranging from 9.5% to 12%.

The funded status of the plans and the amounts included in the Company's consolidated balance sheet were as follows:

(In millions)	Assets Exceed Accumulated Benefits		Accumulated Benefits Exceed Assets	
	1989	1988	1989	1988
Plan assets at fair value, primarily publicly traded stocks and bonds	**$29.0**	$20.6	**$139.7**	$121.8
Actuarial present value of projected benefit obligations				
Accumulated benefit obligations				
Vested	**(27.1)**	(17.4)	**(143.4)**	(118.7)
Non-vested	**(.5)**	(2.6)	**(4.0)**	(19.0)
Provision for future salary increases			**(15.9)**	(18.9)
Plan assets greater (less) than projected benefit obligations	**1.4**	.6	**(23.6)**	(34.8)
Unrecognized net loss	**10.9**	8.9	**.1**	16.5
Prior service cost	**.7**		**2.7**	
Unrecognized net (asset) obligation	**(9.0)**	(7.8)	**13.9**	13.1
Prepaid (accrued) pension cost	**$ 4.0**	$ 1.7	**$ (6.9)**	$ (5.2)

8 *Stock Incentive Plans*

Under various plans, the Company may grant stock option and other awards to key executive, management and creative personnel. Transactions under the various stock option and incentive plans during 1989 were as follows:

(In millions)	Shares
Outstanding at September 30, 1988	**7.5**
Awards cancelled	**(.1)**
Awards granted	**4.5**
Awards exercised	**(2.2)**
Outstanding at September 30, 1989	**9.7**
Exercisable at September 30, 1989	**2.2**

Stock option awards are granted at prices equal to at least market price on the date of grant. Options outstanding at September 30, 1989 and 1988, respectively, ranged in price from $12.57 to $107.25 and $9.42 to $64.19 per share. Options exercised during the period ranged in price from $9.42 to $64.19 per share. Shares available for future option grants at September 30, 1989 were 1.8 million.

9 *Stockholders' Equity*

(In millions)	Shares	Common Stock(i)	Paid-in Capital	Treasury Shares	Retained Earnings
Balance at September 30, 1986	130.7		$283.2		$1,135.5
Allocation of Paid-in Capital to Common Stock (i)		$13.1	(13.1)		
Exercise of stock options, net	1.1	.1	32.0		
Common stock repurchase (ii)	(.1)			$ (8.1)	
Dividends ($.32 per share)					(42.0)
Net income					444.7
Balance at September 30, 1987	131.7	13.2	302.1	(8.1)	1,538.2
Exercise of stock options, net	2.3	.2	75.3		
Common stock repurchase (ii)	(.8)	(.1)		(33.0)	
Dividends ($.38 per share)					(50.5)
Net income					522.0
Balance at September 30, 1988	133.2	13.3	377.4	(41.1)	2,009.7
Exercise of stock options, net	2.2	.2	57.4		
Common stock repurchase (ii)	(.1)			(14.4)	
Dividends ($.46 per share)					(61.8)
Net income					703.3
Balance at September 30, 1989	135.3	$13.5	$434.8	$(55.5)	$2,651.2

(i) The Company reincorporated in Delaware in February, 1987 and authorized stock having a $.10 par value.

(ii) Under a program to repurchase up to 14.0 million shares, the Company has repurchased 7.0 million shares of common stock at prevailing market prices.

There are 5.0 million shares of preferred stock, par value $.10 authorized for issuance with none outstanding. In connection with the rights described below, 1.8 million shares of preferred stock were reserved for issuance.

In June 1989, the Company adopted a stockholders' rights plan. The plan becomes operative in certain events involving the acquisition of 25% or more of the Company's common stock by any person or group in a transaction not approved by the Company's Board of Directors. Upon the occurrence of such an event, each right, unless redeemed by the Board, entitles its holder to purchase for $350 an amount of common stock of the Company, or in certain circumstances the acquiror, having a market value of twice the purchase price.

10 *Detail of Certain Balance Sheet Accounts*

(In millions)	1989	1988
Receivables		
Trade, net of allowances	**$ 542.8**	$381.3
Euro Disneyland advances	**323.7***	123.6
Notes and other	**42.0**	56.6
	$ 908.5	$561.5
Other Assets		
Intangibles	**$ 365.7**	$115.3
Other	**275.0**	142.9
	$ 640.7	$258.2
Accounts Payable and Other Accrued Liabilities		
Accounts payable	**$ 756.6**	$509.7
Payroll and employee benefits	**220.3**	174.6
Other	**34.5**	14.4
	$1,011.4	$698.7

*Subsequent to September 30, the Company has received repayments amounting to $253 million.

11 *Business Segments*

(In millions)	1989	1988	1987
Capital Expenditures			
Theme parks and resorts	**$ 665.4**	$ 559.0	$ 249.1
Filmed entertainment	**27.2**	16.9	15.7
Consumer products	**21.6**	6.6	1.0
Corporate	**35.4**	13.2	14.3
	$ 749.6	$ 595.7	$ 280.1
Depreciation Expense			
Theme parks and resorts	**$ 172.4**	$ 137.2	$ 134.0
Filmed entertainment	**12.2**	6.8	5.5
Consumer products	**3.1**	.6	.2
Corporate	**3.8**	4.0	3.4
	$ 191.5	$ 148.6	$ 143.1
Identifiable Assets			
Theme parks and resorts	**$4,066.9**	$3,195.6	$2,291.3
Filmed entertainment	**1,252.1**	631.2	500.8
Consumer products	**193.1**	148.8	48.4
Corporate	**1,145.1**	1,133.3	513.6
	6,657.2	5,108.9	3,354.1
Discontinued operations			452.2
	$6,657.2	$5,108.9	$3,806.3

11 *Business Segments (cont.)*

(In millions)	1989	1988	1987
Supplemental Revenue Data			
Theme Parks and Resorts			
Admissions	**$1,021.7**	$816.3	$757.4
Merchandise, food and beverage	**1,019.5**	829.1	764.4
Filmed Entertainment			
Theatrical product	**1,090.1**	824.9	546.3

Export revenues by domestic operations for the three years ended September 30, 1989, 1988 and 1987, were $653.3 million, $400.1 million and $299.2 million, respectively.

12 *Acquisitions*

In December, 1988, the Company acquired and assumed management of the Los Angeles television station KCAL-TV for approximately $320 million. The Company paid $218 million in cash and will pay the balance upon completion of the transfer of the station license.

In February, 1988, the Company acquired Wrather Corporation for approximately $161 million in cash and $89 million in debt. Wrather assets include Disneyland Hotel, leasehold interests in the Hotel Queen Mary and Spruce Goose and other real estate holdings. In May, 1988, the Company acquired Childcraft Education Corporation for approximately $61 million in cash. Childcraft is a direct mail marketer of children's educational toys, play equipment and classroom furniture.

13 *Contingencies*

The Company (together with, in some instances, certain of its directors and officers) is a defendant or co-defendant in various legal actions involving antitrust, copyright, breach of contract and various other claims incident to the conduct of its businesses. Management does not expect the Company to suffer any material liability by reason of such actions.

QUARTERLY FINANCIAL SUMMARY

(In millions, except per share data)

	December 31	March 31	June 30	September 30
1989				
Revenues	$1,043.6	$1,037.8	$1,167.6	$1,345.3
Operating Income	249.9	260.2	345.8	373.1
Net Income	148.3	149.0	193.3	212.7
Earnings Per Share	1.08	1.08	1.40	1.54
Dividends Per Share	.10	.12	.12	.12
Market Price Per Share				
High	68 3/8	78 3/4	98 3/4	124 1/2
Low	60 1/2	64 7/8	77 7/8	93 1/8
1988				
Revenues	$734.6	$774.5	$915.7	$1,013.4
Operating Income	175.6	208.0	271.3	229.9
Net Income	100.4	120.2	165.0	136.4
Earnings Per Share	.73	.87	1.20	.99
Dividends Per Share	.08	.10	.10	.10
Market Price Per Share				
High	80	65 1/4	65 5/8	65 3/8
Low	41 1/4	54	54 1/4	60

SELECTED FINANCIAL DATA

(In millions, except Per Share and Other Data)

	1989	1988	1987	1986	1985
Statement of Income Data					
Revenues	**$4,594.3**	$3,438.2	$2,876.8	$2,165.8	$1,700.1
Operating income	**1,229.0**	884.8	776.8	527.7	345.7
Interest expense	**23.9**	5.8	29.1	44.1	54.6
Income from continuing operations	**703.3**	522.0	392.3	213.2	132.3
Net income	**703.3**	522.0	444.7	247.3	173.5
Balance Sheet Data					
Total assets	**$6,657.2**	$5,108.9	$3,806.3	$3,121.0	$2,897.3
Borrowings	**860.6**	435.5	584.5	547.2	823.1
Stockholders' equity	**3,044.0**	2,359.3	1,845.4	1,418.7	1,184.9
Statement of Cash Flows Data					
Cash flow	**$1,275.6**	$1,075.4*	$830.6	$668.4	$518.8
Investments					
Theme parks, resorts and other property, net	**749.6**	595.7	280.1	174.1	179.8
Film costs	**426.7**	225.7	178.3	203.7	149.9
Acquisitions	**237.3**	221.7			
Per Share Data					
Net income					
Continuing operations	**$5.10**	$3.80	$2.85	$1.57	$ .98
Total	**5.10**	3.80	3.23	1.82	1.29
Cash dividends	**.46**	.38	.32	.315	.30
Other Data					
Stockholders at close of year	**143,000**	124,000	101,000	77,000	58,000
Employees at close of year	**47,000**	39,000	31,000	30,000	30,000

*Excludes $722.6 million unearned royalty advances.

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Chairman and Chief Executive Officer
The Walt Disney Company

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Ignacio E. Lozano, Jr.*†
Editor-in-Chief, LA OPINION

Sharon Disney Lund*
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Walt Disney Attractions

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The Walt Disney Company

E. Cardon Walker
Former Chairman and Chief Executive Officer
The Walt Disney Company

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The Irvine Company

Frank G. Wells††
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The Walt Disney Company

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Hufstedler, Miller, Kaus & Beardsley

Gary L. Wilson††
Executive Vice President and Chief Financial Officer
The Walt Disney Company

DIRECTOR EMERITUS
Joseph F. Cullman 3rd

*Member of Audit Review Committee
†Member of Compensation Committee
††Member of Executive Committee

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Frank G. Wells
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Vice Chairman of the Board

Gary L. Wilson
Executive Vice President and Chief Financial Officer

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Senior Vice President-General Counsel

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Lawrence P. Murphy
Senior Vice President-Strategic Planning

Neil R. McCarthy
Senior Vice President-Planning and Control

John H. Forsgren
Vice President-Treasurer

Doris A. Smith
Vice President and Secretary

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Barton K. Boyd

Disney Development Company
Peter S. Rummell

Euro Disneyland
Robert J. Fitzpatrick

Walt Disney Attractions
Richard A. Nunis

Walt Disney Imagineering
Martin A. Sklar

The Walt Disney Studios
Jeffrey Katzenberg
Richard H. Frank

The Disney Channel
John F. Cooke

Credits:
Designer: John Jensen
Photographers: Gary Krueger, David Strick,
Jim McCrary, Jerry Schneider, David Roark,
Theo Westenberger, Ron Batzdorff, Ron Tom,
Steve Shapiro, Lynn Houston, Robert A. Brooks,
The Orlando Sentinel/George Remaine


Disneyland
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Dumbo
Pinocchio
SNOW WHITE
THE HAUNTED HOUSE
Snow White
Finds a Home
California
Disneyland

Disneyland

35 YEARS OF MAGIC